Ontario

Deposit Insurance Corporation of Ontario

Société ontarienne d'assurance-dépôts

ANNUAL REPORT 2012

Contents

Mission, Vision, Values Statement, DICO Staff	1
Corporate Governance	2
Ombudsman's Report	3
DICO's Board of Directors	4
Sub-Committees of the Board	6
DICO's Business Model 2013	7
Message from the Chair	8
Message from the CEO	10
Management's Discussion and Analysis	13
• Sector Overview	13
• Financial Overview	17
• DICO's Strategic Plan 2013-2015	22
• DICO's Risk Management	23
• Balanced Scorecard Overview 2012-2015	24
Management's Responsibility	27
Independent Auditors' Report	28
Statement of Financial Position	29
Statement of Operations and Changes in the Deposit Insurance Reserve Fund	30
Statement of Comprehensive Income	31
Statement of Changes in Equity	32
Statement of Cash Flows	33
Notes to Financial Statements	34
List of Insured Institutions	47

Deposit Insurance Corporation of Ontario
4711 Yonge Street, Suite 700
Toronto ON M2N 6K8
416 325-9444 in Toronto
1-800-268-6653 Toll Free
FAX: 416 325-9722
Web site: www.dico.com
E-mail: info@dico.com

Printed on recycled paper

DICO's Publications Available on the Website

DICO has published a wide range of guidance documents and tools to assist institutions in improving their operations and governance. DICO also publishes information for the general public on deposit insurance.

Key areas covered by DICO publications include:	DICO Publications include:	New in 2012
- Capital Adequacy & Capital Management	- DICO By-laws	- Capital Adequacy Guideline
- Deposit Insurance (Levels & Coverage)	- Guidance Notes	- Director Training & Qualifications
- Enterprise Risk Management (ERM)	- Application Guides	o Guidance Notes for Class 1 & Class 2 institutions
- Examinations of Insured Institutions	- Best Practices	o Application Guides for Class 1 & Class 2 institutions
- Financial Management & Financial Risks	- Tools	o Sample Self–Assessment Tool
- Governance	o Assessment Workbooks	o Director Candidate Information Guide
- International Financial Reporting Standards (IFRS)	o Handbooks (Director's Handbook; Audit Committee Handbook)	o Policy Development Guide
- Lending	o Manuals	o Sector Notice – DICO Expectations & Implementation Methods
- Sector–wide Financial and Operational Performance Information & Updates	- Sector Updates and Financial Performance Statistics (Sector Outlook)	- Sector Advisories
- Sector and Industry Trends & Concerns	- Sector Notices and Advisories	o Capital Risk Advisory – Credit Union Shares held as Security
	- Deposit Insurance Brochure ("Your Deposits are Protected")	o Lending Advisory – Mortgage Practices & Potential Real Estate Market Correction
	- DICO Annual Report	o Operational Risk Advisory – Providing Banking Services to Money Service Businesses
	- DICO Info (newsletter)	

Mission

To protect depositors and contribute to the stability of the Ontario Credit Union and Caisse Populaire sector.

Vision

We will contribute to the soundness, stability and success of the Ontario Credit Union / Caisse Populaire sector by being an effective solvency regulator and deposit insurer.

Values

In fulfilling our mandate and pursuing our Vision and Mission we will live by the following values:

EXCELLENCE AND PROFESSIONALISM. DICO will maintain a highly skilled and diverse workforce that promotes excellence and professionalism in how it conducts its affairs.

RESPECT AND FAIRNESS. Employees will treat everyone with mutual respect and fairness. DICO will act and support employees in a fair and consistent manner.

INTEGRITY AND TRUSTWORTHINESS. Employees will adhere to the highest ethical standards in performing their duties and responsibilities including maintaining the confidentiality of sensitive information.

COMMUNICATIONS AND TEAMWORK. Employees will maintain open communications and work cooperatively amongst themselves and with partners towards the achievement of DICO's mandate.

FINANCIAL STEWARDSHIP. DICO will act as a responsible agency that continuously strives to be efficient and effective for the benefit of all stakeholders and will manage its operations effectively and in a cost-efficient manner.

DICO Staff

Giovanna Arnold•Vineet Bapat•Adrienne Barber•Robert Blair•Alla Brachman•Kelly Brunn•Rishi Bulsara•John Burgman•Janette Chan•
Richard Dale•Sébastien Daniels•Tony D'Errico•Ray Di Lullo•Bob Edmison•Brigitte Elie•Bill Foster•Pierre Jean Gallant•Carmen Gheorghe•
Sharon Haslett•Guy Hubert•John Hutton•Entela Josifi•Yasmin Khoja•Steve Kokaliaris•Marg Madari•Mauri Marak•Jim Maxwell•Brian Mullan•
Alana McLeary•Grace Medeiros•Niall O'Halloran•Danny Pianezza•Naile Piranaj•Andy Poprawa•Andy Rechtshaffen•Mercedes Ruano•
Shivdeep Singh•Roman Sochaniwsky•James Stephenson•Suzanne Tucker•Nelson Verdecia•Joanna Wearing•Grace Wen•Michael White•Winnie Yu.

Corporate Governance

The Deposit Insurance Corporation of Ontario (DICO) is an agency of the Province of Ontario established in 1977 and operates under the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). The Act sets out DICO's objects, powers and duties as well as general terms for deposit insurance and other governing parameters. DICO functions within the legal framework established by the Act, Management Board of Cabinet Directive on Agency Establishment and Accountability and other applicable directives and laws. The Corporation is ultimately accountable to the Legislature through the Minister of Finance for the conduct of its affairs.

The Act requires that the DICO Board of Directors (Board) "manage the affairs or supervise the management of the affairs of the Corporation…". The Board of Directors is composed of up to nine persons all of whom are appointed by the Lieutenant-Governor-in-Council to serve for various terms usually up to three years per term.

DICO follows a robust Board appointment process to ensure that it recruits the best qualified people. The Board's criteria for consideration of candidates for Board membership include:

- experience in the financial services industry and in particular, financial cooperatives;
- understanding credit union/caisse populaire principles, sector structure and modus operandi;
- possessing Board experience, director training or a background in business or academia;
- understanding business concepts, operations and financial reports;
- communicating effectively;
- thinking strategically; and
- making decisions using sound judgement.

The Corporation has established a skills profile in addition to a position description for directors. DICO has also established a gender, experience, skills and geographic representation profile for the Board as a whole, to ensure that it maintains an appropriate balance of these attributes. All potential candidates for the Board are screened and interviewed by a committee of the Board prior to a recommendation being made for appointment to the Minister. DICO typically provides the Minister with more than one candidate. Once the Minister has selected a candidate, that recommendation is forwarded to the Public Appointments Secretariat and Cabinet for approval prior to appointment by the Lieutenant-Governor-in-Council.

DICO follows best practices in corporate governance including:

- a formal director orientation process;
- continuous individual director and Board development;
- Board succession planning;
- annual Board and peer assessment and feedback;
- regular in-camera sessions; and
- an annual strategic planning session.

The Board also establishes annual objectives for itself and measures its performance against those stated objectives. These include strategies for risk management and communication with stakeholders, executive management and management reporting and control.

DICO is a member and active participant in the Conference Board of Canada's Public Enterprise Governance Centre, the Institute of Corporate Directors and other organizations which provide governance advice. These affiliations provide the Corporation with insights into best and emerging practices for achieving excellence in governance.

Ombudsman's Report

Beryl Roberto
Ombudsman

Full co-operation and support was received from the Board, management and staff at DICO throughout the year.

The mandate of the Office of the Ombudsman for the Deposit Insurance Corporation of Ontario (DICO) is to review complaints that have not been resolved at the operational level and to reach conclusions based on an independent review of the facts.

Complaints must relate to regulatory issues between insured institutions and DICO or to disputes between depositors or borrowers of institutions that are being liquidated.

In the course of investigating complaints, the Ombudsman may make non-binding recommendations to DICO.

As well, confidential information used for the purposes of an investigation will not be disclosed outside of the Office of the Ombudsman.

The Ombudsman reports directly to the Board and is independent from operational programs.

DICO's website www.dico.com provides full details related to the complaint resolution process and includes complaint forms, contact information and circumstances under which the Ombudsman has no jurisdiction, such as matters involving a Tribunal hearing; an enforcement action where an order has been issued; an order for administration or liquidation; and litigation.

During 2012, there were five complaints received:

- Four complaints were initiated by members of insured institutions:
  - One member complaint was related to service at a Credit Union; therefore, not directly related to the activities of DICO. The complaint was resolved immediately by the Credit Union.
  - Two members from liquidated institutions required assistance from this Office regarding
    a) a request for specific information on a disputed account; and
    b) management of loan payments. DICO Management responded to the members in a timely manner.
  - Another required guidance where the complaint was initiated due to the non-declaration of a dividend on an account.
- One complaint from a Director of an insured institution under Supervision was outside the jurisdiction of this Office as it involved an enforcement action where an order had been issued.

Full co-operation and support was received from the Board, management and staff at DICO throughout the year.

Respectfully submitted,

Beryl Roberto, *Ombudsman*
Tel: 416-325-9446
Email: ombudsman@dico.com

DICO's Board of Directors

Paul Mullins, B.A., LL.B,
Chair of the Board

Paul Mullins is a graduate of Osgoode Hall Law School and has had his own practice in Windsor and Essex County since 1971. He was a commissioner for the Federal Human Rights Tribunal. He served as a Director and/or President of Windsor Homes Coalition which provides low income housing to needy families. For over 24 years Mr. Mullins served as a Director and/or Chair of the Board of United Communities Credit Union (formerly Woodslee Credit Union).

Mr. Mullins has also served on numerous community and church groups in his hometown of Woodslee, Ontario, over the years. He was appointed on June 17, 2004 and was appointed Chair of the Board on May 4, 2011.

Raymond Boucher, B.A.

Raymond Boucher has been involved with the caisses populaires movement for over 30 years. He was General Manager of Caisse Populaire de Kapuskasing Limitée for 20 years. He was on the board of L'Alliance des caisses populaires de l'Ontario for more than 18 years as president, vice-president and member of the executive committee. Mr. Boucher has also been involved on various committees of DICO from the late 1980s to 2004. He has acquired extensive experience in governance and an understanding of the issues surrounding the credit union/caisse populaire network. He was also involved in other community organizations such as the Chair of the Board of the "Services de Counselling Hearst Kapuskasing Smooth Rock Falls Counselling Services", and Treasurer for the Army Cadet Corps of Kapuskasing. Mr. Boucher was appointed on August 12, 2009 and his term expires on August 1st, 2015.

Don Dalicandro,
P. Eng., MBA, C.Dir.

Don Dalicandro is Chief Executive Officer of ASI, a software company serving the mobile field workforce needs of Fortune 1000 North American clients. He has over twenty-five years experience working with large and medium sized companies in diverse business sectors including finance, manufacturing, consumer goods, oil and gas, field service, commercial office construction and leasing, retail and food service. In 2007, Mr. Dalicandro obtained his Chartered Director designation from The Directors College, Degroote School of Business. He currently holds Board positions with DecisionPoint Systems Inc., Joseph Brant Memorial Hospital, Vice-Chair and Governance Chair, KARDON, ASI, and Burlington Hydro Inc. Previous Board positions include FirstOntario Credit Union Governance Chair, Secretary and Vice Chairman; ASECO and Azertech. Mr. Dalicandro was appointed on March 23, 2011 and his term expires on March 23, 2014.

Jane Davis, B. Sc. (Hon), MM, ICD.D

Jane Davis is an experienced risk management and change management professional, with an extensive background in wealth management, brokerage, mutual funds, investment counselling and private banking. She also has sales experience in the corporate and commercial banking sectors so she understands the business management challenges. Ms. Davis has worked internationally in both wealth management and corporate banking risk management roles. She sits as an independent director on four corporate and one not-for-profit boards since obtaining her ICD designation in early 2006. Ms. Davis is also a member of five Investment Review Committees in the fund sector. She is also a Corporate Director for Growthworks and Chair of the Harvest Fund IRC. Ms. Davis was appointed on August 12, 2008 and her term expires on June 22, 2014.

Gail Di Cintio

Gail Di Cintio is Vice-President Operations with Larus Technologies, an Ottawa-based software engineering company, specializing in sensor network solutions. Previous to this, Ms. Di Cintio was VP Human Resource Development at Fujitsu, with global responsibilities for Career Development, Retention and Succession Planning Programs. She was also involved as a Board Director with Alterna Savings and Alterna Bank from 2003-2008, and was the Chair of the Human Resources Committee. Ms. Di Cintio has been a member of the Board of Trustees with The Ottawa Hospital from 1995-2001. Ms. Di Cintio was appointed on May 4, 2011 and her term expires on May 4, 2014.

Carol Lemelin, CMA

Carol Lemelin was Chief Financial Officer for The St. Lawrence Seaway Management Corporation with overall responsibilities including Finance, Information Technology and Telecommunications, Internal Audit, and Revenue and Forecasting. Mr. Lemelin was Chair of Caisse Populaire de Cornwall Inc., and also served in various capacities on the board of Caisse Populaire de Cornwall for several years. Carol obtained Audit Committee Certified (A.C.C.) designation from the Directors' College in 2012. Mr. Lemelin was appointed on June 20, 2007 and his term expires on June 23, 2013.

Colin Litton, FCPA, FCA, ICD.D,
Vice-Chair

Colin Litton is a Fellow of the Institute of Chartered Accountants of Ontario and a Certified Director. He is a retired partner of KPMG and his career with the firm has included service in its South African, Australian and Canadian practices. During his career with KPMG he was primarily engaged in providing audit and advisory services to banks, pension and investment funds and other entities comprising the financial services industry. He was the Chair of the Deposit-taking Institutions Auditors Advisory Committee to the Superintendent of Financial Institutions Canada until his retirement from public practice in Canada. Currently, he also serves on the boards of the Pacific and Western Group of Companies and the Canadian Scholarship Trust Foundation. Mr. Litton was appointed on August 12, 2008 and his term expires on June 22, 2014.

Monique Tremblay, FCIA, FSA, MBA

Monique Tremblay is a pension actuary with in depth knowledge of the insurance industry, particularly the savings and retirement lines of business. Her broad experience in senior management includes accountability, strategic planning, communication, sound reporting and governance. Her business and actuarial skills cover the measurement and assessment of risk and its management implications. Ms. Tremblay was appointed on April 18, 2011 and her term expires on April 18, 2014.

Patrick Deutscher,
Observer, ***Ministry of Finance***

Patrick Deutscher is Chief Economist for Ontario and Assistant Deputy Minister of the Office of Economic Policy (OEP) in the Ministry of Finance. He was appointed to that post in 2006. Prior to that, he was Director of the Macroeconomic Analysis and Policy Branch of the OEP. Pat first joined the Ontario Treasury in 1981. He worked in the Office of Economic Policy until 1987, when he left to work on fiscal and economic policy with the Federal Department of Finance, subsequently returning to the Ontario Public Service (OPS). Earlier in his career he worked with Environment Canada and Imperial Oil. Pat was raised in Saskatchewan. He holds a Ph.D. in Economics from the University of Toronto.

Sub-Committees of the Board (as at December 31, 2012)

Audit & Finance Committee

This committee assists the Board of Directors by considering and making recommendations on audit and finance matters and other related issues including the review of financial statements and audited financial statements. The committee also oversees the external and internal audit processes, reviews the Corporation's Annual Report and makes recommendations to the Board for the approval of the Corporation's business plan and budget. The committee also reviews the Corporation's investment policy and strategy as well as various risk management strategies related to the committee's area of responsibility.

- Colin Litton, *Chair*
- Carol Lemelin
- Monique Tremblay
- Paul Mullins, *ex-officio*

Governance & Human Resources Committee

The Governance and Human Resources Committee assists the Board of Directors by considering and making recommendations on governance and human resources matters. This committee reviews the structure of Board committees, its composition and skills profiles of the Board members and the human resource policies which impact the corporate governance of the Corporation. It also reviews the Corporation's succession planning related to senior personnel, its compensation policies and pension plan as well as overseeing the Corporation's stakeholder relationship and communication strategies.

- Gail Di Cintio, *Chair*
- Raymond Boucher
- Paul Mullins, *ex-officio*

Risk Oversight Committee

The Risk Oversight Committee assists the Board of Directors by considering and making recommendations on, and by carrying out, functions and duties in relation to deposit insurance and regulatory matters. This committee monitors risk policies and reviews and authorizes the exercise of powers of the Corporation. It also monitors the deposit insurance reserve fund and model assumptions as well as monitoring legal actions and approving financial assistance requests from insured institutions.

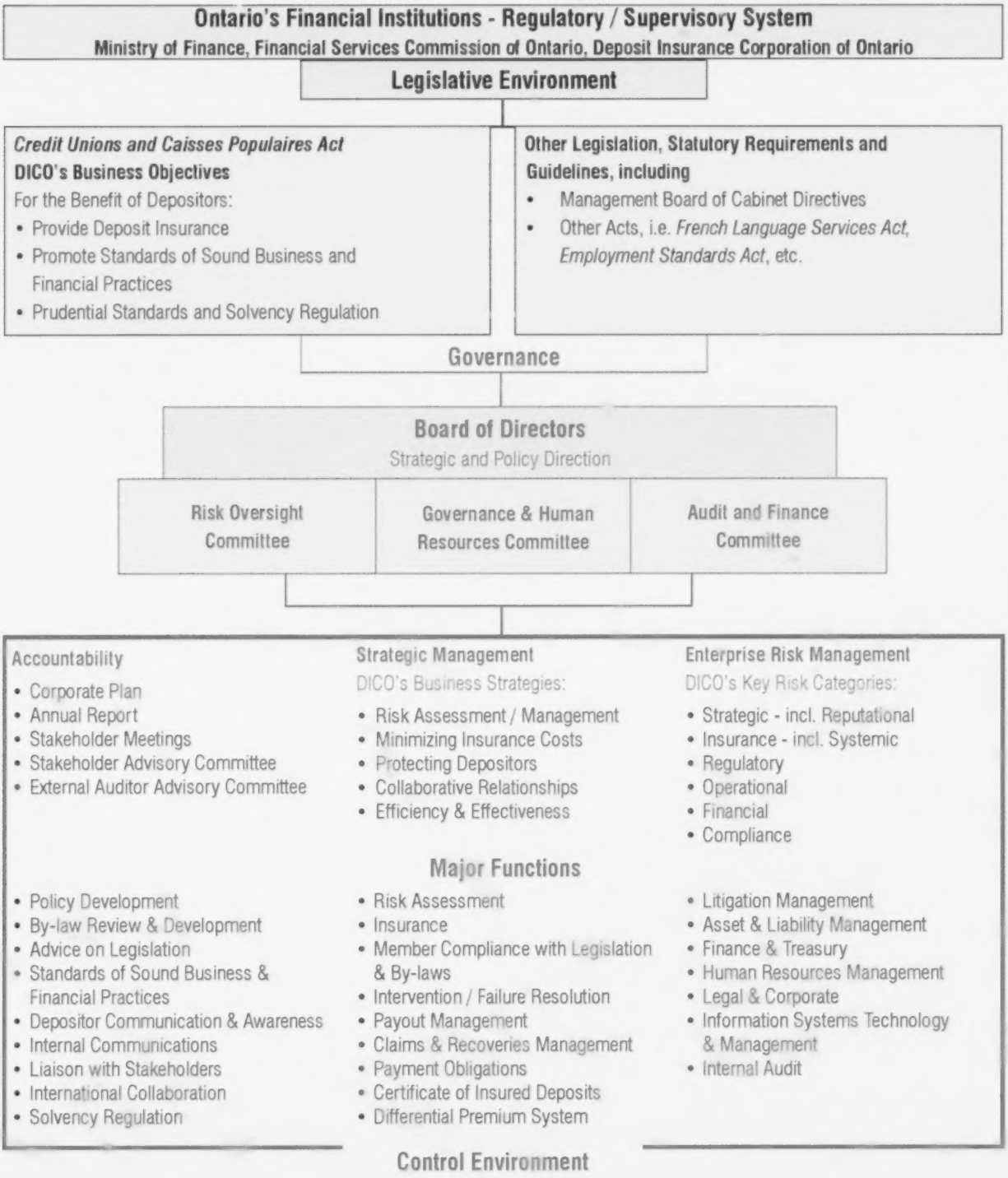
- Jane Davis, *Chair*
- Don Dalicandro
- Paul Mullins, *ex-officio*

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2012

	DICO Board	Audit & Finance Committee	Governance & Human Resources Committee	Risk Oversight Committee
Number of meetings held	6	5	4	4
Total # of members	8	4	3	3
Total scheduled attendance	48	20	12	12
Total actual attendance	46	20	12	11
% of Attendance	96%	100%	100%	91.7%

DICO's Business Model 2013

DICO has developed a business model to encapsulate the way in which the Corporation conducts its business in light of its legislation and overall environment. This business model reflects DICO's position as an integral part of Ontario's financial safety net, with its own legislated mandate. DICO's Board of Directors and management activities are considered under the umbrella category of governance. This also reflects the importance of strategic management and enterprise risk management. The importance of accountability is also highlighted in the business model, as are the major functions of the Corporation in fulfilling its mandate.


Ontario's Financial Institutions - Regulatory / Supervisory System
Ministry of Finance, Financial Services Commission of Ontario, Deposit Insurance Corporation of Ontario
Legislative Environment
Credit Unions and Caisses Populaires Act
DICO's Business Objectives
For the Benefit of Depositors:
• Provide Deposit Insurance
• Promote Standards of Sound Business and Financial Practices
• Prudential Standards and Solvency Regulation
Other Legislation, Statutory Requirements and Guidelines, including
• Management Board of Cabinet Directives
• Other Acts, i.e. French Language Services Act, Employment Standards Act, etc.
Governance
Board of Directors
Strategic and Policy Direction
Risk Oversight Committee
Governance & Human Resources Committee
Audit and Finance Committee
Accountability
• Corporate Plan
• Annual Report
• Stakeholder Meetings
• Stakeholder Advisory Committee
• External Auditor Advisory Committee
Strategic Management
DICO's Business Strategies:
• Risk Assessment / Management
• Minimizing Insurance Costs
• Protecting Depositors
• Collaborative Relationships
• Efficiency & Effectiveness
Enterprise Risk Management
DICO's Key Risk Categories:
• Strategic - incl. Reputational
• Insurance - incl. Systemic
• Regulatory
• Operational
• Financial
• Compliance
Major Functions
• Policy Development
• By-law Review & Development
• Advice on Legislation
• Standards of Sound Business & Financial Practices
• Depositor Communication & Awareness
• Internal Communications
• Liaison with Stakeholders
• International Collaboration
• Solvency Regulation
• Risk Assessment
• Insurance
• Member Compliance with Legislation & By-laws
• Intervention / Failure Resolution
• Payout Management
• Claims & Recoveries Management
• Payment Obligations
• Certificate of Insured Deposits
• Differential Premium System
• Litigation Management
• Asset & Liability Management
• Finance & Treasury
• Human Resources Management
• Legal & Corporate
• Information Systems Technology & Management
• Internal Audit
Control Environment

Message from the Chair:
Helping Build a Sustainable Sector

Paul Mullins
Chair of the Board of Directors

In order to remain viable and sustainable, Ontario credit unions and caisses populaires will need to embrace marketplace changes through the development and implementation of disciplined and rigorous risk based strategic and operational plans.

On behalf of the Board of Directors, I am pleased to present our annual report to the government and our other stakeholders. The Deposit Insurance Corporation of Ontario, an operational enterprise agency of the Ontario government, exists to protect depositors from loss of deposit funds placed with Ontario's credit unions and caisses populaires and to provide prudential oversight and solvency regulation for the sector. I am pleased to report that DICO has again met our primary mandate during the past year. No depositor has ever lost any deposit funds placed with an Ontario credit union or caisse populaire.

The Year in Review

Despite the continuing uncertain economic climate, confidence in Ontario's credit unions and caisses populaires by depositors has remained steadfast. During 2012, the sector recorded solid deposit and loan growth but experienced a lower level of profitability due to the continued low interest rate environment. Institutions have reduced the effects of the current challenging environment by prudently managing their expenses while looking for new sources of revenue. DICO plays an important role in promoting confidence and stability in credit unions and caisses populaires by ensuring adherence to high standards of governance, capital levels and risk management.

DICO's deposit insurance reserve fund – the fund that protects depositors from loss – continues to grow. At the end of the year the fund stood at $147.5 million or 64 basis points of insured deposits. The annual contribution to the fund exceeded forecast as a result of lower than expected insurance losses and substantial recoveries on past losses. The fund has now achieved a level that is within our interim target range of between 56 and 68 basis points (bp) of insured deposits which was established over ten years ago. As the economic conditions and composition of the sector have changed substantially since the setting of the fund's current target range, DICO will be reviewing the target and strategy in order to ensure that the fund is adequate to protect depositors' interests. We intend to continue to build the fund and implement additional preventive measures to reduce the likelihood of future claims against the fund.

During the year, DICO continued to enhance its oversight processes aimed at improving the prudential regulatory regime for Ontario credit unions and caisses populaires. We are convinced that these policies, processes and service standards have strengthened the protection of depositors while permitting credit unions and caisses populaires to take advantage of opportunities to better serve their members.

As the financial services marketplace and the economic environment evolve, financial institutions are realizing that their business models will need to adapt in order to stay competitive and relevant to their clients. In order to remain viable and sustainable, Ontario credit unions and caisses populaires will need to embrace these marketplace changes through the development and implementation of disciplined and rigorous risk-based strategic and operational plans. Through our oversight processes, we will continue to monitor their progress. During 2013, DICO intends to facilitate discussions with various credit union and caisse populaire leaders to provide guidance and support to ensure that the sector remains safe and sound for the next generation of members, shareholders and depositors.

Governance and Oversight

The Board of Directors strives to be a model Board for all of its insured institutions. The Board's activities focus on important aspects of governance and oversight such as strategy, succession planning, risk management and reporting. Through a strong Committee structure, the Board also focuses on important strategic issues related to both DICO and insured institutions. The Board continues to follow best practices in governance as set out in current literature on the subject including the Conference Board of Canada's and the Institute of Corporate Directors' publications. Details of our governance practices can be found in this annual report.

During 2012, our outreach programs to key stakeholders have included presentations to Boards of individual institutions, consultations with credit union leaders, industry conferences (national and international), webinars on specific topics of interest and the publication of guides and other helpful materials. The Board also hosted special events in order to interact with credit union Boards and management. This initiative will continue during 2013. The Board remains committed to ensuring that all key stakeholders are well informed about their responsibilities and the regulatory activities of DICO.

Looking Forward

For 2013, DICO has identified a number of key priorities:

- Continuing to enhance our proactive risk assessment and prudential oversight capabilities;
- Publishing guidance with respect to corporate governance, emerging risks and regulatory expectations;
- Introducing a requirement for enterprise risk management and stress testing for smaller Class 2 and larger institutions respectively;
- Reviewing the fund target and consulting on proposed target levels;
- Reviewing and making recommendations on the differential premium system; and
- Examining the impact of the consolidation of the system on its future stability.

We believe that our long-term strategic direction prudently and comprehensively responds to our mandate to enhance depositor confidence with due regard to the sector's goal to be more competitive and responsive to its members' needs. By exercising continued vigilance through our risk assessment and management programs, by building a solid insurance fund and encouraging a strong financial base at insured institutions, DICO believes that we will continue to protect depositors effectively and contribute to the stability and reputation of Ontario's credit unions and caisses populaires. We look forward to working with our various stakeholders to achieve these goals.

Board

I would like to take this opportunity to express my appreciation to all our Board members for their dedication and professionalism in working together in the interests of all stakeholders. All of our directors bring a high level of skill, expertise and experience to DICO's mandate and deliberations.

During the past year, the composition of the Board has remained the same. With this stability, focus has been placed on director qualifications and training to ensure the Board can continue to bring exceptional value to DICO's management team. All members of the Board bring a significant amount of enthusiasm and experience to our deliberations. We look forward to their continued contributions.

I would like to express my sincere appreciation for the support of the directors and DICO staff, as well as the many stakeholders that we have worked with over the past year.

On behalf of the Board of Directors,

Paul Mullins
Chair of the Board

Message from the CEO: *Overcoming the Challenges*

Andrew (Andy) Poprawa
President & CEO

At the end of 2012, the fund stood at 64 basis points of insured deposits – near the top of our interim target range of 56 to 68 basis points based upon our actuarial model.

The Ontario Legislature created the Deposit Insurance Corporation of Ontario in 1977 to ensure public confidence in Ontario credit unions and caisses populaires. DICO insures deposits at the province's 143 credit unions and caisses populaires and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. Since 2009 DICO's mandate also includes responsibility for prudential oversight and solvency regulation. DICO is fully funded by insured institutions and receives no tax dollars.

The prolonged low interest rate environment continues to pose challenges to maintaining healthy financial margins. Ontario credit unions and caisses populaires have only been able to partially offset this by reducing operating expenses, deposit interest expenses and dividend payouts. As a result, the sector's aggregate return on average assets fell to 37 basis points (bp) in 2012 compared to 51 bp in 2011. Other non-interest income remains an important element in overall profitability. Sector capital levels, as measured on a leverage basis, remain strong at 7.2%. Aggregate liquidity in the sector continues to be adequate but has declined to 12.94% as the result of increased borrowings from securitization activities.

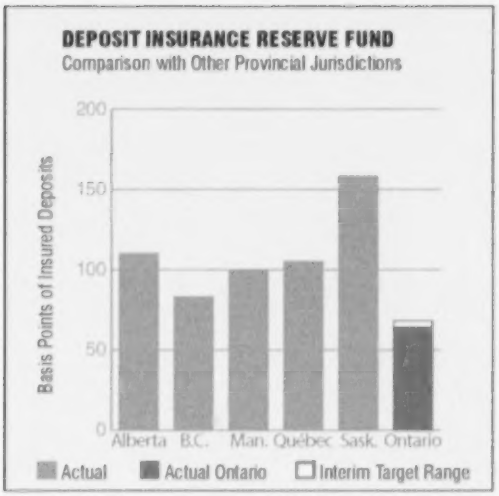
2012 Consolidation and Failures

During 2012 the rate of consolidation within the sector continued. Of the 9 institutions that ceased operations during the year, 7 merged with another institution and 2 were placed into voluntary liquidation. Each of these situations was unique and some required creative solutions to ensure the safety of deposits. In all cases, the credit unions and DICO ensured that all depositors were protected from any loss of their deposit funds and public confidence in the sector was maintained.

During 2012, DICO recorded new provisions for insurance losses of $1.53 million relating to the liquidation of two institutions. The provisions for losses are the expected shortfall on the realization of assets of these institutions after satisfying all creditor claims. As noted in our financial results, we also realized significant recoveries on losses incurred during the recent financial crisis. We believe the amounts realized supported the position DICO took in pursuing third parties. We continue to pursue recoveries from other third parties on those past claims.

DICO'S 2012 FINANCIAL SCORECARD ($MILLIONS)

	DICO Plan	DICO Actual
Insurance Fund	$125.2	**$147.5**
Gross Insurance Provisions	$ 5.0	**$ 4.0**
Recovery of Prior Years Losses	0	**$ 20.0**
Total Gross Operating Expenses	$ 9.5	**$ 8.7**
Total Net Operating Expenses	$ 8.9	**$ 7.9**
Return on Investments	1.0%	**1.03%**



Deposit Insurance Reserve Fund and Premiums

Pursuant to our governing statute, DICO is required to build a Deposit Insurance Reserve Fund (fund) to protect depositors and ultimately taxpayers. As a result of the recent recoveries noted above, DICO made considerable progress in reaching its interim fund target. At the end of 2012, the fund stood at 64 bp of insured deposits – near the top of our interim target range of 56 to 68 bp based upon our actuarial model. DICO continues to strive to protect member deposits through its deposit insurance program, which includes the assessment of the on-going adequacy of this fund, and its regulatory activities to reduce risk to the sector and its members. In light of significant changes in the economy and increased complexity in the financial sector since the fund was created, DICO will be re-assessing the fund's adequacy and target levels in 2013.

OUR STRATEGIES

Proactive and Balanced Risk-Based Regulation and Risk Management

As the prudential regulator and deposit insurer, the Corporation has the authority to respond to imprudent institutional and systemic risks and to ensure that prompt corrective action is taken as necessary. During the year DICO took appropriate measures to monitor and address any non-compliance with the Act and regulations. As a result, two administration orders were issued during the year to promptly address non-compliance situations. Over the past year, DICO has continued to recruit highly qualified staff to address the need for specific skills and succession planning. We are very pleased to welcome many talented individuals who bring a unique set of skills and experience to DICO.

In 2012, DICO worked on a number of important initiatives. The Capital Adequacy Guideline was revised to ensure changes in accounting rules were reflected in capital rules. In addition, DICO finalized its guidance on Director Training and Qualifications for Class 1 and Class 2 institutions, which became effective for all directors elected or appointed on or after July 1, 2012. Institutions are now required to develop and enhance sound governance practices through ongoing director development within a common framework that incorporates a set of nine core competencies and four competency levels that are established by each institution based on its size and complexity, subject to minimum requirements set out in DICO's Guidance Notes. DICO supplemented this guidance with a series of webinars, an application guide, sample tools and a sector notice outlining DICO's criteria for assessing the adequacy of the institution's policies and practices relating to director training and qualifications.

As the result of significant changes that have occurred in the environment in which Ontario credit unions and caisses populaires operate, DICO completed an extensive review of the current differential premium system and developed a consultation paper that sets out proposed revisions to the regime. The consultation yielded comments worthy of further consideration which will be incorporated into a new proposal forthcoming in 2013.

Sound Corporate Governance

The Corporation prides itself on ensuring it operates within the highest standards of competence, professionalism and integrity. To this end, we regularly review and enhance our governance

and management processes to ensure DICO is accountable, transparent and fair in all of its dealings with its insured institutions as well as the public.

Effective Public and Stakeholder Awareness

Providing clear, concise information regarding deposit insurance coverage and other regulatory matters are key elements of DICO's ongoing efforts to ensure sustained public confidence in credit unions and caisses populaires is maintained. Our point of sale brochures and our comprehensive website are the primary tools to provide access to that information. Institutions, their members and the public may also contact DICO for information regarding our programs through our telephone information line and e-mail. During 2012, DICO answered in excess of 600 calls and e-mail inquiries. For further information about DICO and our programs, we invite stakeholders and readers to visit our website at www.dico.com.

Strong Partnerships

To ensure that we work together effectively with all stakeholders, DICO maintains memoranda of understanding with the Minister of Finance, the Superintendent of the Financial Services Commission of Ontario (FSCO), Central 1 Credit Union, La Fédération des caisses populaires de l'Ontario, L'Alliance des caisses populaires de l'Ontario, FINTRAC and the Superintendent of the Financial Institutions Commission of British Columbia. In addition, we have several advisory committees comprised of key senior executives within the regulated sector, as well as Ministry of Finance and FSCO officials.

In the spirit of the co-operative movement we are also pleased to assist other jurisdictions across Canada and around the world in developing sound regulatory and depositor protection regimes for co-operative financial institutions. In 2012, we saw the establishment of the Credit Union Prudential Supervisors Association (CUPSA), which is comprised of Canadian credit union and caisse populaire deposit protection agencies and prudential Supervisors. CUPSA's purpose is to co-operatively pursue effective regulation and supervision of the credit union and caisse populaire sector in Canada. We also periodically have the opportunity to interact with delegations from other countries which come to learn about the structure and regulatory framework of the Ontario credit union and caisse populaire sector.

We continue to chair the International Credit Union Regulators Network (ICURN) – a network of global credit union and caisse populaire regulators formed for the purpose of sharing information and experiences. This past year, DICO hosted the ICURN group in Toronto which presented a series of topics regarding guiding principles for enhancing governance of co-operative financial institutions, best practices for enterprise risk management and director training and qualifications.

LOOKING AHEAD

Ontario credit unions and caisses populaires will continue to strengthen and contribute to the financial and social fabric of Ontario. We also expect the sector will follow its past trend of consolidation and restructuring in order to improve efficiencies, profitability and service. The Board and staff of DICO are committed to providing protection, security and stability to the Ontario credit union and caisse populaire sector for the benefit of all its members and the Ontario economy. We look forward to the opportunity of continuing to demonstrate our commitment in 2013 and beyond.

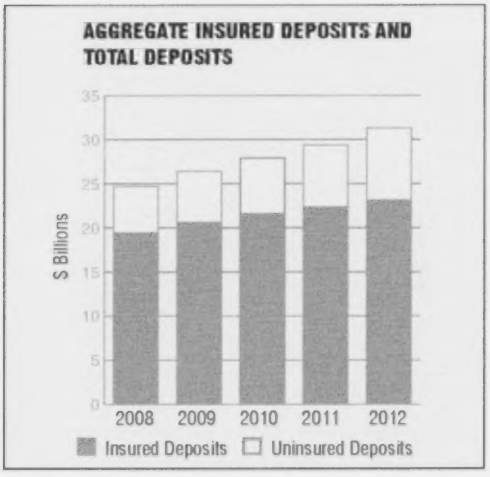
In closing, I would like to express my appreciation to our employees, who are an extremely dedicated group of professionals and the major source of DICO's corporate strength. I appreciate, as well, the advice and support that I continue to receive from DICO's Board of Directors. In particular, I am grateful to our Board Chair, Paul Mullins, for his ongoing wise counsel, guidance and support.

Andrew (Andy) Poprawa, CPA, CA, C.Dir.
President & CEO

Management's Discussion and Analysis

Sector Overview

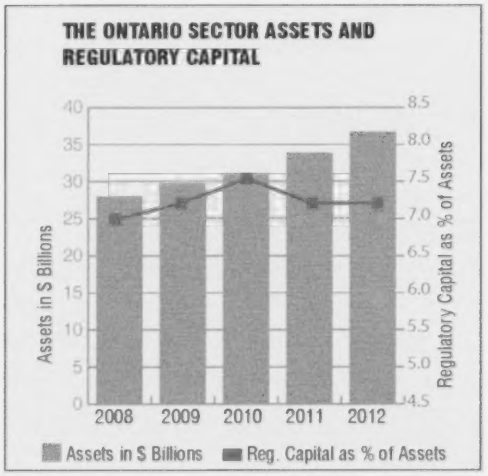
The Deposit Insurance Corporation of Ontario (DICO) provides protection for all eligible deposits held at Ontario credit unions and caisses populaires. Established by provincial legislation, deposit insurance is part of a comprehensive protection program in all Ontario credit unions and caisses populaires. DICO insures most deposits up to $100,000 subject to the eligibility criteria and maximum coverage limits. Deposits held in registered savings plans are fully insured with no maximum limit. For more details regarding the basic coverage that is available for all eligible deposits please visit our web site www.dico.com.



DICO fulfills its mandate in a complex and dynamic environment. The credit union and caisse populaire sector is well capitalized at an average of 7.2% of assets which remained stable from 2011. Mortgage securitizations and the valuation of future employee benefits were the areas which continue to have the largest downward pressure on aggregate sector capital.

The economy, the performance of insured institutions and legislative and regulatory developments are continually monitored. During 2012, the Ontario economy has experienced mixed results. Inflation in Ontario has been hovering at just under 1% as growth in GDP and consumer demand has been sluggish. Manufacturing has declined reflecting the weakness in global demand for Ontario's products. The economy continues to operate at much less than full capacity. While General Motors has announced the closing of its Oshawa plant, they will be making a heavy investment in their Canadian Engineering Centre. Toyota has announced investments to increase production in their Ontario plants. Job growth has been mainly in full time private sector enterprises in and around southern Ontario lead by Toronto, Kitchener-Waterloo, Barrie, Ottawa and Kingston. Conversely, Windsor, Muskoka and the Kawartha regions have faced a decline in employment.

The Bank of Canada is continuing its low interest rate policy and is expected to delay further increases in rates for some time. This is dependent on the success of economic policies to help stimulate growth and the continued economic turmoil around the globe. The impact on earnings from lower interest rates in the past year is estimated at $53 million, primarily due to continued lower residential mortgage and commercial loan yields.



The housing sector has not experienced the same sharp downward trend as the US, however, it has begun to moderate even though interest rates have remained at a historically low level. House prices

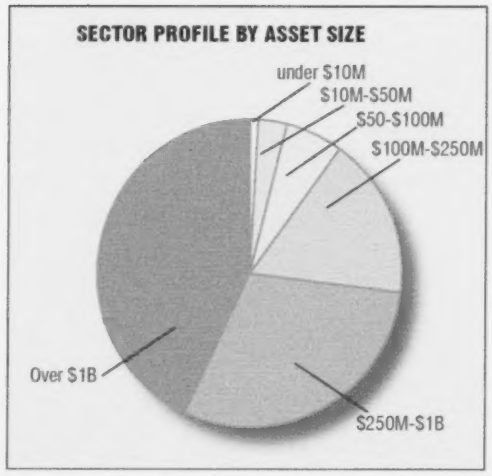
and sales, while increasing, are doing so at a lower rate than in previous years. Housing sales and starts, while still growing, have trended lower having been driven down by the government's tightening of mortgage lending rules. Household and consumer debt remains high as the Bank of Canada continued to warn Canadians about the dangers of carrying high levels of debt as interest rates will eventually rise leaving borrowers with larger payments they may no longer be able to support. Potential credit defaults could have a negative impact on the sector. While the economy has seen some modest improvement in 2012, Ontario's recovery and economic growth is expected to remain slow for some time along with continued weakness in the U.S. and Europe.

DICO'S SECTOR PROFILE AT A GLANCE

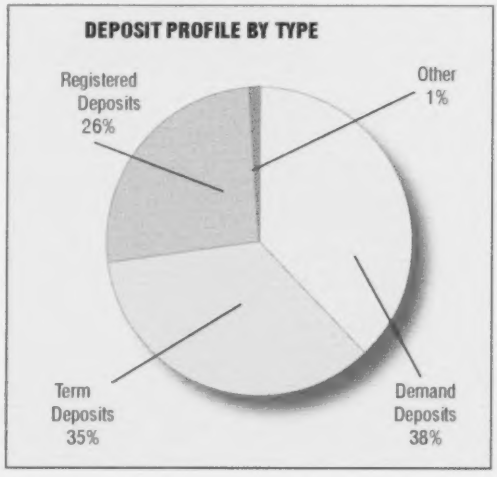
	2012	2011
Number of Institutions	**143**	152
Total Assets (billions)	**$36.6**	$33.8
Total Deposits (billions)	**$31.3**	$29.4
Insured Deposits (billions)	**$23.1**	$22.3
Insured Deposits as a % of Total Deposits	**74%**	76%
Regulatory Capital Ratio (Leverage Basis)	**7.20%**	7.20%
Asset Quality (loan costs as a % of Average Assets)	**0.12%**	0.11%
Profitability (net income as a % of Average Assets)	**0.37%**	0.51%

Overview of Ontario Credit Unions and Caisses Populaires

During 2012 the long-term trend of consolidation continued. The number of active insured institutions declined by nine, to a total of 143, as a result of mergers or wind-ups. The sector lost five Class 1 institutions with the remainder being Class 2 institutions as smaller institutions continue to merge with larger ones to form stronger institutions, reducing the risk in the sector. Today, about 51% of the assets of the Ontario sector are held by the largest eight insured institutions while 5% of assets are held by the smallest 64 institutions. This distribution of assets remains an interesting and challenging dynamic within the industry. Further consolidation is expected as institutions look to grow and protect their members' assets.

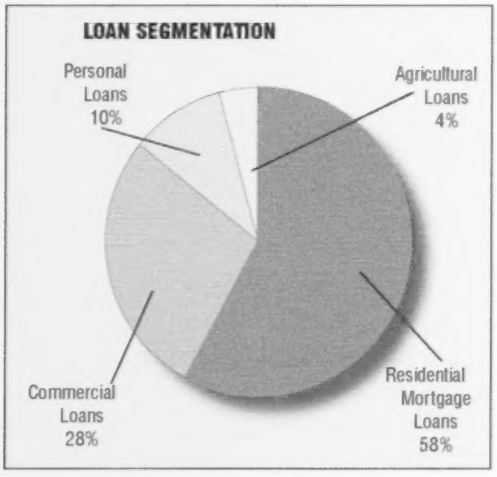


Growth in aggregate on-balance sheet assets however, increased year over year by 8.3% to $36.6 billion. Deposits grew by 6.5% to $31.3 billion led by strong growth in term deposits of 9% and registered deposits of 6.6%. Brokered deposits account for 2% of total deposits.

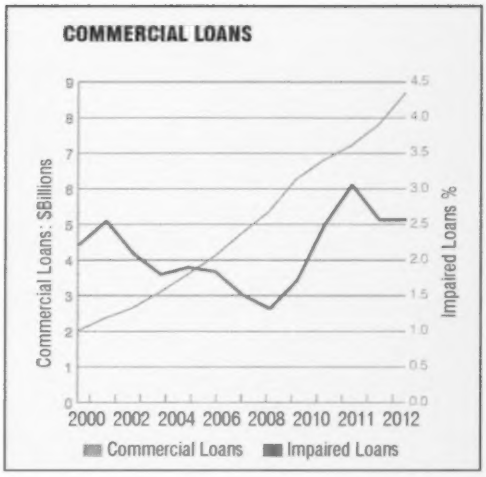


Total residential mortgage loans in 2012 reached $17.8 billion with securitizations accounting for $1.6 billion of the total. Growth, net of securitizations, was 7.75% in 2012 as compared to 7.44% in 2011. The commercial loan growth remained strong at 10% reaching $8.6 billion in 2012 (8% in 2011). While these loans generally have a better rate of return, they also bring an increased level of risk due to their unique and complex nature with respect to underwriting and underlying valuation of the security pledged. The personal loan portfolio contracted in 2012 by 1.2% to $2.9 billion

(0.2% in 2011), representing a declining portion of the total loan portfolio mix of 9.6% in 2012 (10.6% in 2011) as members seek to reduce their unsecured debt load.



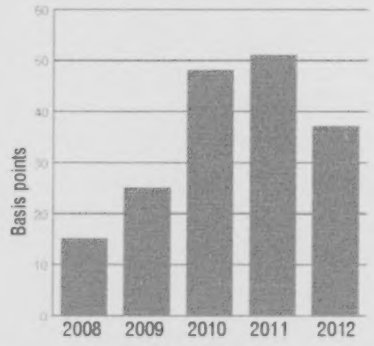
Throughout 2012 the sector's aggregate credit risk, as measured by aggregate loan costs and delinquency, remained relatively stable as market and economic conditions marginally improved. Notwithstanding this modest improvement, the coverage ratio (loan allowances as a percentage of impaired loans) has declined to 37 per cent compared to 41 per cent in 2011. Gross delinquency greater than 30 days declined to 106 bp of total loans from 116 bp in 2011 although this remains well above historical levels. Loan costs also increased marginally to 12 bp (11 bp in 2011). Delinquency levels and impairments in commercial lending are still a concern. Commercial loan delinquencies greater than 30 days improved to 197 bp from 211 bp in 2011 while loan impairments increased marginally to 260 bp of total loans from 256 bp in 2011.


COMMERCIAL LOANS
Commercial Loans: $Billions
Impaired Loans %
0 1 2 3 4 5 6 7 8 9
0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0 4.5
2000 2002 2004 2006 2008 2010 2011 2012
Commercial Loans
Impaired Loans

At the end of 2012 liquidity continued to decrease to 12.94% compared to 13.7% in 2011 as the result of unfavourable treatment of mortgage securitizations under IFRS. Aggregate capital remained stable at 7.2% of assets (7.2 % in 2011). Regulatory capital is comprised of retained earnings (60%), investment and patronage shares (30%) and membership shares (3%). All but two insured institutions, which are being closely monitored, met the prescribed statutory minimum capital requirements.

Profitability during 2012 declined to 37 bp from 51 bp in 2011. Last year, there were two large extraordinary gains that had accounted for approximately 13 bp of return on average assets. Thirteen institutions experienced operating losses during 2012. These institutions are being closely monitored to ensure that the underlying reasons for the losses are being rectified and sufficient capital is being injected by members to support their continued viability.

EARNINGS IN THE ONTARIO SECTOR



During 2012, adherence to the Standards of Sound Business and Financial Practices improved as measured by the results of the Examination program. At the end of the year, 87% of insured institutions (based on assets), were in full compliance with all standards compared to 83% in 2011. Weakness in credit risk management remains the main cause of institutions not being in full compliance with the standard.

DICO's Differential Premium System (DPS) is based on the aggregate risk profiles of institutions using quantitative and qualitative factors for five key components - capital, asset quality, adherence to standards of sound business and financial practices, earnings, and interest rate risk.

The average premium rate remained stable at $1.15 in 2012 versus $1.14 in 2011. The table below indicates the aggregate DPS ratings at the end of 2012.

ANNUAL RISK PREMIUM SUMMARY
(as a percentage of total assets)

PREMIUM RATE ($ PER $1,000)	RISK LEVEL	2012	2011	2010	2009	2008
1.00	Low	30%	53%	47%	26%	32%
1.15	Low +	60%	34%	34%	53%	56%
1.40	Moderate	8%	10%	10%	16%	9%
1.75	High	2%	2%	8%	3%	1%
3.00	High +	0%	1%	1%	2%	2%

In the context of a continuing low interest rate and competitive market environment, the Ontario credit union and caisse populaire sector has further consolidated and, at the same time, grown to expand services to its members and communities across the province. While profitability in some insured institutions continues to be a concern for their future viability, the sector remains relatively stable and plays an important and increasing role in the financial and economic landscape in Ontario providing cost effective banking alternatives to Ontarians.

Legislative and Regulatory Developments

Amendments to the *Credit Unions and Caisses Populaires Act* and revised Regulation, which came into force October 1, 2009 provide credit unions and caisses populaires with augmented capabilities to compete in the financial services marketplace. In addition, DICO's role, responsibilities and powers were expanded to include solvency regulation with broader scope to protect depositors and members and to contribute to the stability of the sector.

During 2012, DICO received six applications relating to asset purchase and sales, one application relating to obtaining a capital variation and one application relating to the increase in lending limit. Six applications were approved with the remaining two withdrawn. In addition, DICO also issued two Administration orders.

Information regarding DICO's regulatory powers and activities, including criteria, guides and service standards is available on its web site www.dico.com.

2012 Financial Overview

This section provides a review of the Corporation's financial performance for the year ended December 31, 2012. As of January 1, 2011, the Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The fiscal year ended December 31, 2012 represents the Corporation's second annual reporting period under IFRS.

Highlights:

- Premium income increased $0.9 million or 3.5% to $25.2 million. The modest increase was mainly due to the growth of the sector's insured deposits.
- Provision for insurance losses for the current year totaled $1.5 million and the recovery of provision for prior years' insurance losses totaled $17.5 million which resulted in a net recovery of provision for losses of $16 million in 2012. Included in the recovery was the successful settlement of a number of claims against third parties and a reduction of the general accrual for losses.
- Operating expenses, before recoveries, were $8.7 million which was in line with last year's expenses. Recovery of operating expenses was lower by $1.2 million largely because of fewer new institutions under DICO's various intervention programs during 2012. DICO's policy is to charge pre-established fees to institutions under various programs to recover part of the administrative costs.
- The Deposit Insurance Reserve Fund (DIRF) rose by $34.6 million, increasing the DIRF balance to $147.5 million at December 31, 2012. The fund represents 64 bp of the sector's total insured deposits, an improvement of 13 bp from 2011. The increase was primarily attributed to the recovery of provisions for prior year's insurance losses and the controlled operating expense growth for the year.

Impact of adoption of the amended IAS 19 – Employee benefits

The Corporation has elected to apply the International Accounting Standards Board ("IASB")'s amended IAS 19 – Employee benefits, effective January 1, 2012. The standard applies to DICO's defined benefit plan which provides future non-pension post-retirement benefits to all eligible retirees and dependents. The amendments eliminate the existing option to defer actuarial gains and losses (corridor approach) and require changes from remeasurement of defined benefit plan assets and liabilities to be recognized in full in the statement of other comprehensive income ("OCI").

The full impact of this transition and reconciliation on DICO's financial position and financial performance is disclosed in Note 16 of the Notes to the Financial Statements as at December 31, 2012. In summary, the remeasurement of the defined benefit plan's obligation has contributed to the one-time charge to the DIRF of $249 thousand at January 1, 2011, an adjustment of $5 thousand to 2011 operating expense and has increased the accumulated other comprehensive loss by $750 thousand as at December 31, 2012.

Premium income

For the year ended December 31 ($ thousands unless indicated)	2012	2011	2010	Change from 2011		Plan 2012
	$	$	$	$	%	$
Premium Income	25,193	24,342	21,196	851	3.5%	25,400
Average premium rate per thousand of insured deposits	$1.15	$1.14	$1.03	$0.01	0.9%	$1.13

Premium income increased $851 thousand or 3.5% to $25.2 million in 2012. The increase was primarily due to the growth of the sector's insured deposits. The average premium rate based on the total premiums billed in 2012 was $1.15 per thousand of insured deposits compared with $1.14 in 2011.

Differential premium rates in effect for 2012 were the same as 2011, with the same five premium tiers. Premiums are based on the amount of insured deposits reported by insured institutions as of their fiscal year ends, calculated in accordance with the differential premium risk classification system (rates ranging from $1.00 to $3.00 per thousand of insured deposits).

Premium Class	1	2	3	4	5
Risk Rating	Low	Low +	Medium	High	High +
Premium Rate	$1.00	$1.15	$1.40	$1.75	$3.00

(Recovery) provision for deposit insurance losses

For the year ended December 31 ($ thousands unless indicated)	2012	2011	2010	Change from 2011		Plan 2012
	$	$	$	$	%	$
Provision for current year losses	**1,532**	1,100	1,550	432	39%	5,000
(Recovery) of provision for prior's year losses	**(17,569)**	(1,197)	(44)	-16,372	1368%	-
Net (recovery) provision for insurance losses for the year	**(16,037)**	(97)	1,506	-15,940	16433%	5,000

At December 31, 2012, the Corporation recorded $1.53 million of specific provisions for current year losses with respect to two institutions in Liquidation and Administration. Recovery of provisions for prior years' losses in 2012 amounted to $17.57 million which were largely due to the settlement of a number of outstanding claims against third parties. The recovery also included the reduction of the general accrual for losses by $1.5 million and some minor recoveries and adjustments to the provisions of a few institutions in Liquidation.

The provision for insurance losses represents the Corporation's best estimate of the losses it is likely to incur as of December 31, 2012. It includes the specific and general provision for insurance losses. During 2012, two new institutions were placed in Liquidation and one new institution was put under Administration. At the end of the year, DICO managed 26 institutions in Liquidation, one in Administration and one in Supervision.

Operating expenses

For the year ended December 31 ($ thousands unless indicated)	2012	2011	2010	Change from 2011		Plan 2012
	$	$	$	$	%	$
Gross operating expenses	**8,696**	8,673	7,537	23	0.3%	9,459
Recovery of operating expenses	**(822)**	(2,025)	(391)	1,203	-59.4%	(538)
Net operating expenses	**7,874**	6,648	7,146	1,226	18.4%	8,921

Gross operating expenses, including salaries and benefits, totaled $8.7 million for the year, just a modest increase of $23 thousand or 0.3% from last year. Salaries and personnel benefits increased $475 thousand or 8% from 2011, mainly attributable to the accrual of benefits for the employee retention plans for key management personnel for the purpose of ensuring effective transition and succession planning. The increase

in personnel expense was offset by reduced third party examination costs ($116 thousand or 26%) and a significant decrease in legal fees ($336 thousand or 88%) as there were no major regulatory legal issues during the year. DICO continues to focus on improving efficiency in addressing insurance risks by strengthening our internal examination resources and reducing reliance on third party examiners.

Recovery of operating expenses consists mainly of administrative costs of managing the estates of institutions in Liquidation and fees charged to institutions in Supervision and Administration. The decrease of recoveries by $1.2 million in 2012 was due to fewer new institutions being placed into Liquidation and other programs.

Investments

DICO's investment portfolio is the prime source of funds to meet potential deposit insurance claims from depositors in insured institutions. DICO's investment policy is formulated to ensure that the Corporation has the resources readily available to pay out insured deposits when warranted. Our key objectives are to achieve an appropriate balance between liquidity, investment security and yield, as well as compliance with the requirements of both the provisions of the Income Tax Act and Regulation 237/09 of the *Credit Unions and Caisses Populaires Act, 1994* (the "Act"). The assets in DICO's portfolio are invested and managed by Ontario Financing Authority ("OFA") in accordance with an Investment Management Agreement.

As at December 31, 2012, DICO's investment portfolio under OFA's management increased to $131.8 million, a net increase of $39.5 million for the year. The portfolio was comprised of 58% Canadian government (federal and provincial) securities and 42% bankers' acceptances/deposit notes of Canadian chartered banks. Since June 2012 the portfolio includes government bonds laddered at various terms, from 6 months to a maximum of 3.25 years. These investments represent 8.9% ($11.8 million) of DICO's total portfolio at the end of the year. As at December 31, 2012 the effective yield of the short-term investments averaged 1% and the longer term investments (laddered bonds) averaged 1.34%. The weighted average yield of the total investments as of December 31, 2012 was 1.18% (2011 – 0.85%), with weighted average days to maturity of 105 (2011 – 62 days). The Corporation's exposure to market, credit and interest rate risks is very minimal due to its conservative portfolio and short-term duration.

In 2011 and 2012, DICO purchased the CUCO Co-op Class B shares held by a number of credit unions in Liquidation in order to facilitate the orderly wind-down of their business. Total purchased cost was $442 thousand with the fair market value of $641 thousand at December 31, 2012. All investments are classified as available-for-sale. These investments are measured at fair value at the end of the reporting period with unrealized gains and losses recorded in other comprehensive income until realized or sold.

Deposit insurance advance recoverable

DICO is responsible under the Act to pay deposit insurance claims from depositors up to statutory limits when the insured institution is no longer able to meet its obligations to depositors. Provisions for losses are estimated based on the net costs to DICO's insurance fund after the anticipated realization of assets and other recoveries of the failed institution. When funds advanced in respect of deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as deposit insurance advance recoverable on the statement of financial position.

After recording the recoveries and provisions for insurance losses for the year, the insurance advance recoverable balance was reduced to $22.8 million (2011: $27.3 million) as at December 31, 2012, a net change of $4.5 million.

Accrual for deposit insurance claims

The accrual for deposit insurance claims represents the amount of losses for which advances have not been made at the date of the Statement of Financial Position. The total includes both provisions for specific losses and a general accrual for losses. As of December 31, 2012 total accruals amounted to $4.8 million, of which $3.5 million represented the general accrual for losses and the balance of $1.3 million represented the accruals of specific provisions. The general accrual for loss of $3.5 million (2011- $5.0 million) reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions.

Employee benefits obligation

As at December 31, 2012, the accrued non-current employee benefits totaled $5.3 million, which includes DICO's pension plans, future non-pension post-retirement benefit plan and key management personnel retention plans, increased $766 thousand or 17% from 2011. Of this $342 thousand was attributable to the increased accrual of the defined benefit obligation (non-pension, post-retirement benefits) as a result of the amended IAS 19, as explained in the financial overview section on page 17. The remaining increase was the combination of accrued supplemental and auxiliary pension plan obligations as well as the accrued benefits for key management personnel retention plans for the purpose of ensuring effective succession planning.

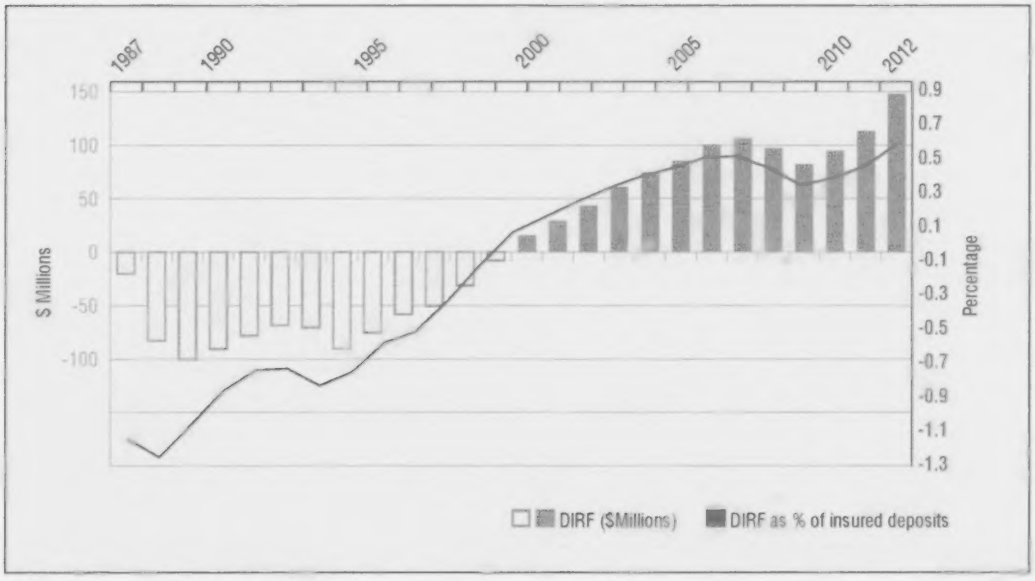
Deposit Insurance Reserve Fund (DIRF)

DICO is responsible for providing insurance against the loss of part or all of the deposits with Ontario credit unions and caisses populaires. One of the primary mechanisms to ensure that deposit funds are well insured is the maintenance of a deposit insurance reserve fund ("DIRF"). In order to ensure that the DIRF is sufficient to cover its insurance risks, DICO evaluates the adequacy of the fund and of its liquidity requirements on a regular basis. DICO, with the assistance of an actuarial consulting firm, has developed a sophisticated model to determine the appropriate range of the fund size based on a number of principles, assumptions and other factors which include criteria such as the risk profile of insured institutions, economic conditions, premium revenue, interest rates, loss history, risk migration and sector growth. The assumptions and other factors used in the model are updated regularly to account for changes in the sector's environment.

In order to determine the capacity of the fund to withstand insurance losses, DICO uses a confidence level of 95%. This level assumes there is a 95% degree of confidence that the fund would be sufficient to withstand potential losses over a 20 year period without going into a deficit position. Under these assumptions and parameters, DICO has currently established an interim fund target range of between 56 bp and 68 bp of insured deposits. In the event that the fund falls below the minimum target range (56 bp) for any length of time, DICO is required to take appropriate steps to restore the DIRF to be within the established target range.

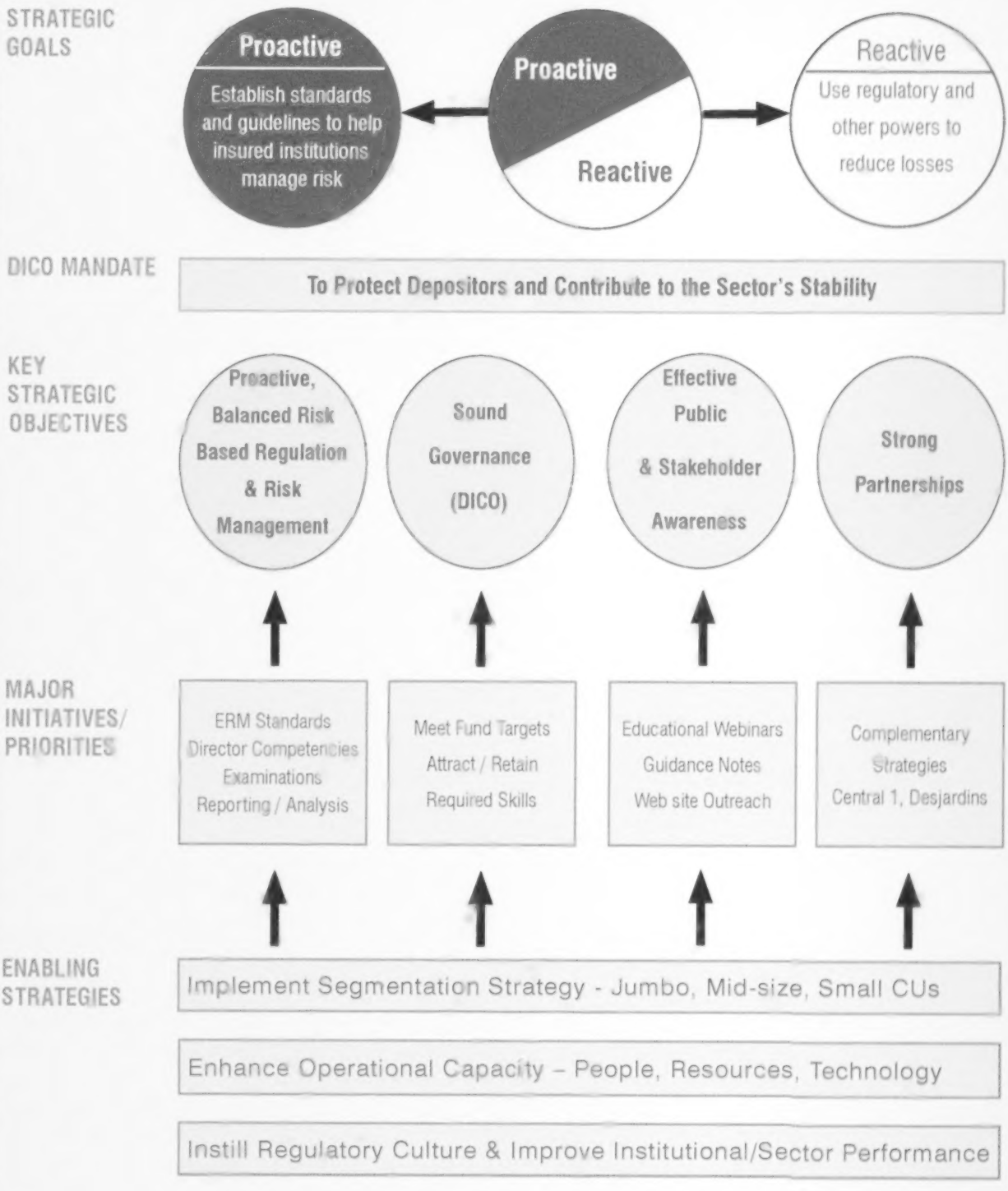
For the year ended December 31 ($ thousands unless indicated)	2012	2011	2010	Change from 2011		Plan 2012
	$	$	$	$	%	$
DIRF	**147,531**	112,960	94,304	34,571	30.60%	125,167
% of Sector Insured Deposits	**0.64%**	0.51%	0.44%	-	0.13%	0.54%
Estimated Sector Insured Deposits ($billions)	**23.1**	22.3	21.5	0.8	3.59%	23.2

Deposit Insurance Reserve Fund



As at December 31, 2012 the DIRF reached $147.5 million, up $34.6 million or 30.6% from a year ago. It represented 64 bp of the sector's estimated insured deposits, 13 bp better than last year. The increase was largely attributable to the recovery of insurance loss provisions as a result of the successful settlement of a number of outstanding claims against third parties. Another contributing factor was the controlled operating expense growth for the year. The net increase of $34.6 million to the DIRF for the year was the result of total income of $26.4 million and net insurance provisions recovery of $16 million, offset by net operating expenses of $7.9 million.

DICO's Strategic Plan 2013-2015



DICO's Risk Management

DICO's risks are managed in the context of our Enterprise Risk Management Framework (ERM) – a well defined set of Board approved risk management policies and practices, including a well defined risk appetite, to ensure that the Board, the Risk Oversight Committee of the Board and management understand and respond to the risks to which we are exposed. The ERM is reviewed in detail annually and is a primary driver in the development of DICO's operational business plan and budget each year.

Overview of DICO's Assessment of Significant Risks

Description of Risk	Risk Level/ Direction
DEPOSIT INSURANCE AND REGULATORY RISKS:	
Risk Assessment / Monitoring Risk: **The risk that DICO does not promptly or systematically identify insured institutions that pose an unacceptable level of insurance risk resulting in financial loss.**	LOW ↔
Risk Management / Intervention Risk: **The risk that DICO does not take appropriate action with respect to an unacceptable level of insurance risk posed by an insured institution resulting in financial loss including:** • Risk Management Risk • Capital Adequacy Risk • Systemic Risk • Confidence Risk	MODERATE ↔
Loss Management Risk: **The risk that DICO does not take appropriate action to manage insured institutions under Administration resulting in increased financial loss including:** • Loss Management Risk • Bonding Insurance Risk • Litigation Risk	LOW ↔
Liquidation Risk: **The risk that DICO does not take appropriate action to manage the process of liquidating an institution resulting in increased financial loss and loss of reputation.**	LOW ↔
Regulatory Risks: **The risk that DICO fails to meet its regulatory responsibilities as solvency regulator including:** • Prudential Standards Risk • Non-Compliance Risk	LOW / MODERATE ↔
DICO'S CORPORATE RISKS	
Strategic Risks: **The risk that the Board and senior management will select inappropriate long term strategies, fail to provide leadership or not properly implement strategies that may increase exposure to the Corporation including:** • Political Risk • Strategic Direction Risk • Reputation Risk • Communications Risk	LOW ↔
Operational Risks: **The risk that the Corporation fails to maintain appropriate internal operations and controls so that it does not incur reputational and/or financial losses including:** • Business Continuity Risk • Liability/Litigation Risk • Property Risk • Health & Safety Risk • Technology & Technology Support Risk • Outsourcing Risk • Human Resources Risk	MODERATE ↓
Financial Risks: **DICO's risk of loss associated with managing its assets and liabilities including:** • Adequacy of the Deposit Insurance Reserve Fund Risk • Adequacy of DICO's Provisions • Liquidity Risk • Investment / Market Risk • Internal Controls Risk	LOW / MODERATE ↔
Compliance Risks: **DICO's risk of loss resulting from failure to comply with all applicable legislation and directives including:** • *Credit Unions and Caisses Populaires Act* Risk • Management Board of Cabinet Risk • *Income Tax Act* Risk • Human Resources Legislation Risk • Other legislative Risks	LOW ↔

Balanced Scorecard Overview 2012 - 2015

▲ Planned progress on schedule and within budget
▼ Slippage in terms of time to completion and/or budget variances
► In progress or deferred

DICO's Mission: ***To protect depositors and contribute to the stability of the Ontario Credit Union and Caisse Populaire sector***

STRATEGIC OBJECTIVES	2012 RESULTS	2013-2015 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
PROACTIVE AND BALANCED RISK-BASED REGULATION AND RISK MANAGEMENT DICO must continually stay alert to indicators of risk and the emergence of new risks so that it can respond quickly to manage insurance risk. The Corporation is focused on continuing to build its strength in risk assessment, risk management, loss management and in its regulatory role.	**Risk and Regulatory Compliance Assessment**		
	• Improved Risk Assessment Profile process ▲ • High risk /non-compliant institutions identified within 30 days of reporting/examinations ▲ • Improved Risk Assessment Profile process ▲ • Enhanced early warning systems (flags) ▲ • ERM implemented for institutions over $250M of assets ▲ • Director Competency Standards issued ▲ • Expanded In-house examination capacity ▲	• New early warning systems (flags) • Expanded evaluation of sector risks • Continue to strengthen in-house examination capacity • High risk/non-compliant institutions identified within 30 days of reporting/ examinations • ERM for all Insured Institutions	• Compliance with regulations and Standards of Sound Business & Financial Practices • Timely Identification of non-compliance and high risk institutions
	Risk Management		
	• All institutions meeting defined criteria in appropriate program ▲ • Improved risk ratings for institutions in programs ▲ • Reviewed criteria for Supervision and Administration ▲	• Assign high risk institutions to appropriate programs • Document all risk management processes	• All institutions in appropriate programs based on risk profiles • Improvement of risk profiles for institutions in Supervision
	Failure Resolution		
	• Failure resolution strategies in place ▲ • Public confidence maintained ▲ • Losses minimized ▲	• Appropriate failure resolution strategies employed • Continuation of services for members and depositors • Mitigate losses to DIRF	• Institutions in appropriate programs based on defined criteria • Public confidence maintained • Losses minimized
	Depositor Payouts and Liquidations		
	• Timely Depositor pay outs ▲ • Timely, accurate completion of liquidations ▲ • Maximized collections and recoveries from legal actions recoveries ▲	• Timely depositor pay outs • Timely, accurate completion of liquidations • Maximize collections and recoveries from legal actions	• Depositors paid within 30 days • Recoveries maximized • Public confidence maintained

STRATEGIC OBJECTIVES	2012 RESULTS	2013-2015 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
SOUND CORPORATE GOVERNANCE To maintain stakeholder and public confidence DICO must demonstrate that it is governed and managed in an efficient and effective way. To achieve this DICO will maintain sound governance, manage its significant risks (ERM) and work to ensure that sufficient funds are available to protect depositors.	**Regulatory Actions**		
	• Guidelines published ▲ • Regulatory orders and approvals issued as needed ▲ • Service standards met ▲ • Webinars for management and directors of insured institutions ▲ • Implemented director competency standards ▲ • New/revised Self-Assessment Workbook, Examination Guide, Process Guides ►	• New/revised Self-Assessment Workbook, Examination Guide, Process Guides • Publish Guidelines & Guidance Notes • Issue orders as required • Webinars for management and directors of insured institutions	• Effective governance • Improved understanding and compliance • Consistent application • Service standards met for Regulatory approvals • Transparent processes
	Sound Governance		
	• Compliance with Act, Directives and policies ▲ • Net operating expenses $7.9M or $1M under budget ▲ • HR & IT strategies in place ▲ • Ombudsman function in place ▲ • Risk based Internal Audit ▲	• Compliance with Act and policies • Compliance with all laws and Directives and DICO policies • Net operating expenses $8.8M • HR & IT strategies in place • Ombudsman function in place	• Meeting corporate objectives • Compliance with statutes, Directives & Policies • Budget targets met • Internal staff resources strengthened • Effective complaints mechanism
	Effective Enterprise Risk Management (ERM)		
	• ERM updated and expanded ▲ • Internal Audit recommendations implemented ▲	• ERM continually updated and improved	• Identification and management of all material risks • Integration of ERM with Business Plan and Budget
	Adequate Deposit Insurance Reserve Fund		
	• DIRF reached $147.5M ahead of the minimum $125.2M target for the year ▲ • Provincial Line of Credit in place ▲ • Premium recommendation to the Minister ▲ • Discussion paper released on proposed revisions to DIRF ▲	• Develop revised proposal for DPS • Develop DIRF target range and strategy • Negotiate an appropriate Provincial Line of Credit • 2013 year end DIRF projected at $161M or 67 bps of insured deposits	• Minimum fund targets achieved • Appropriate liquidity to meet insurance/ dissolution needs • Preservation of capital and rate of investment return

STRATEGIC OBJECTIVES	2012 RESULTS	2013-2015 PLANNED KEY INITIATIVES	KEY PERFORMANCE INDICATORS
EFFECTIVE PUBLIC AND STAKEHOLDER AWARENESS DICO must ensure that the public and other stakeholders have ready access to deposit insurance information and a clear & transparent understanding of DICO's role, standards & actions.	**Comprehensive Web site**		
	• Web site continually updated ▲ • Deposit Insurance audio information ►	• Update Q&As for consumers • Implement accessibility software	• Transparency and accessibility of all appropriate information
	Toll-free Information Service		
	• Toll free help line in place ▲	• Maintain bilingual help line	• Utilization and response times
	Point of Sale Consumer Information		
	• Point of sale information available for all institutions ▲ • Quick Reference Guide for front line staff ▲	• Revised Information Brochure • Expanded Quick Reference Guide for front line staff	• Informative Brochures • Decals • Quick Reference Guide
	Communications		
	• Communications plan in place ▲ • Annual Meeting April 19 ▲ • Regular Sector Releases, Sector Outlooks etc. ▲ • Timely Webinars on current topics ▲ • 2 Regional meetings - DICO's Board/Mgmt. and CU/CP stakeholders ▲ • Positive feedback ▲	• Continually updated communication strategy • Annual Meeting • Timely webinars on current topics • Timely publication of sector information	• Consistent messages from DICO • Effective annual / regional meetings • Stakeholder feedback
STRONG PARTNERSHIPS To have the most expertise and impact DICO needs to work effectively with the government, sector / stakeholder representatives and other national and international deposit insurers.	**Strategic Alliances**		
	• Memoranda of understanding in place with strategic partners ▲ • Effective working relationships ▲	• Maintain MOUs and effective working relationships	• Partners' (stakeholders and DICO's) satisfaction - feedback
	Stakeholder Relations		
	• Consultations process on Differential Premium System, director competencies, etc. ▲ • Advisory Committees and Working Groups ▲ • Annual Meeting April 19 ▲	• Advisory Committees and Working Groups • Consultation on all significant issues • Annual Meeting April 11 • 2 Regional Meetings	• Partners' (stakeholders and DICO) satisfaction - feedback • Awareness of stakeholder issues and support for DICO's initiatives

Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew (Andy) Poprawa, CPA, CA, C.Dir.
President & CEO

James Maxwell, CHRP, FLMI
Chief Administrative and Financial Officer

Toronto, Canada

March 20, 2013

Independent Auditors' Report

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario:

We have audited the financial statements of Deposit Insurance Corporation of Ontario ("the Corporation"), which are comprised of the Statement of Financial Position as at December 31, 2012, and the Statement of Operations and Changes in the Deposit Insurance Reserve Fund, Comprehensive Income and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation of Ontario as at December 31, 2012 and the results of its operations, changes in the Deposit Insurance Reserve Fund, comprehensive income and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants
March 20, 2013
Toronto, Canada

Statement of Financial Position

(in thousands of dollars)	*Notes 16*	**December 31, 2012**	December 31, 2011	January 1, 2011
ASSETS				
Current assets				
Cash and cash equivalents		**$ 2,284**	$ 1,710	$ 1,867
Investments	5	**119,986**	92,294	68,390
Premiums receivable		**3,050**	4,002	3,940
Prepaid expenses and other receivables		**729**	1,002	318
Total current assets		**126,049**	99,008	74,515
Non-current assets				
Investments	5	**11,835**	-	-
Deposit insurance advances recoverable		**22,753**	27,333	32,632
Property, plant and equipment, net	7	**445**	517	1,416
Intangible assets, net	8	**666**	795	-
Other investments	5	**641**	517	-
Total non-current assets		**36,340**	29,162	34,048
Total assets		**$ 162,389**	$ 128,170	$ 108,563
LIABILITIES				
Current liabilities				
Payables and accruals		**$ 803**	$ 649	$ 646
Deferred premium income		**3,436**	4,178	3,893
Total current liabilities		**4,239**	4,827	4,539
Non-current liabilities				
Payables and accruals		**952**	933	941
Employee benefits	9	**5,275**	4,509	3,455
Accrual for deposit insurance claims	6	**4,768**	5,286	5,275
Total non-current liabilities		**10,995**	10,728	9,671
Total Liabilities		**$ 15,234**	$ 15,555	$ 14,210
EQUITY				
Accumulated other comprehensive income (loss)		**$ (376)**	$ (345)	$ 49
Deposit Insurance Reserve Fund		**147,531**	112,960	94,304
Total Equity		**$147,155**	$ 112,615	$ 94,353
Total Liabilities and Equity		**$162,389**	$ 128,170	$ 108,563

See accompanying notes to financial statements.

On behalf of the Board:

Director Director

Deposit Insurance Corporation of Ontario

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

(in thousands of dollars)	*Notes*	Year ended December 31, 2012	2011
INCOME			
Premium income	*4*	**$ 25,193**	$ 24,342
Other income		**1,215**	865
		26,408	25,207
EXPENSES			
Salaries and benefits		**6,445**	5,970
Operating expenses		**2,251**	2,703
Recovery of operating expenses		**(822)**	(2,025)
		7,874	6,648
Excess of income over operating expenses		**18,534**	18,559
Net (recovery) provision for insurance losses	*6*	**(16,037)**	(97)
Excess of income over total expenses		**34,571**	18,656
Deposit Insurance Reserve Fund, beginning of year		**112,960**	94,304
Deposit Insurance Reserve Fund, end of year		**$ 147,531**	$ 112,960

See accompanying notes to financial statements.

Statement of Comprehensive Income

(in thousands of dollars)	Year ended December 31, 2012	2011
Excess of income over total expenses	**$ 34,571**	$ 18,656
Other comprehensive income:		
Unrealized gains on available-for-sale investments arising during the year	**83**	42
Unrealized gains on available-for-sale investments acquired from liquidated institutions arising during the year	**75**	125
Actuarial loss on post-retirement, non-pension benefits arising during the year	**(189)**	(561)
Total other comprehensive income (loss)	**(31)**	(394)
Comprehensive income	**$ 34,540**	$ 18,262

Statement of Accumulated Other Comprehensive Income

(in thousands of dollars)	Year ended December 31, 2012	2011
Accumulated other comprehensive income (loss), beginning of year	**$ (345)**	$ 49
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	**(91)**	(49)
Unrealized gains on available-for-sale investments arising during the year	**174**	91
Unrealized gains on available-for-sale investments acquired from liquidated institutions arising during the year	**75**	125
Actuarial loss on post-retirement, non-pension benefits arising during the year	**(189)**	(561)
Net change during the year	**(31)**	(394)
Accumulated other comprehensive income (loss), end of year	**$ (376)**	$ (345)

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Changes in Equity

(in thousands of dollars)	Actuarial loss on post-retirement, non-pension benefits *	Unrealized gains (losses) on available-for-sale investments *	Deposit Insurance Reserve Fund	Total equity
Balance at January 1, 2011	$ -	$ 49	$ 94,304	$ 94,353
Total comprehensive income for the year:				
Excess of income over total expenses			18,656	18,656
Other comprehensive income:				
Net change in fair value of available-for-sale investments		42		42
Net change in fair value of available-for-sale investments acquired from liquidated institutions		125		125
Net change in fair value of post-retirement, non-pension benefits	(561)			(561)
Total comprehensive income (loss) for the year	(561)	167	18,656	18,262
Balance at December 31, 2011	**$ (561)**	**$ 216**	**$ 112,960**	**$ 112,615**
Balance at January 1, 2012	$ (561)	$ 216	$ 112,960	$ 112,615
Total comprehensive income for the year:				
Excess of income over total expenses			34,571	34,571
Other comprehensive income:				
Net change in fair value of available-for-sale investments		83		83
Net change in fair value of available-for-sale investments acquired from liquidated institutions		75		75
Net change in fair value of post-retirement, non-pension benefits	(189)			(189)
Total comprehensive income (loss) for the year	(189)	158	34,571	34,540
Balance at December 31, 2012	**$ (750)**	**$ 374**	**$ 147,531**	**$ 147,155**

* Accumulated other comprehensive income

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Cash Flows

(in thousands of dollars)

	Notes	Year ended December 31, 2012	2011
Cash flows from operating activities:			
Excess of income over total expenses		**$ 34,571**	$ 18,656
Adjustments for:			
Net (recovery) provision for insurance losses		**(16,037)**	(97)
Loss on disposal of property, plant and equipment		**-**	1
Unrealized gains on available-for-sale investments arising during the year		**(31)**	(394)
Depreciation of property, plant and equipment	7	**159**	189
Amortization of intangible assets	8	**129**	107
		18,791	18,462
Changes in:			
Premiums receivable		**952**	(62)
Prepaid expenses and other receivables		**273**	(684)
Payables and accruals		**173**	(5)
Deferred premium income		**(742)**	285
Employee benefits		**766**	1,054
		1,422	588
Net deposit insurance recoveries	6	**20,099**	5,407
		40,312	24,457
Cash flows from investing activities:			
Interest received		**1,043**	819
Purchase of investments		**(132,462)**	(92,811)
Proceeds on sale of investments (net)		**91,768**	67,571
Purchase of property, plant and equipment	7	**(87)**	(95)
Purchase of intangible assets	8	**-**	(98)
		(39,738)	(24,614)
Net increase in cash and cash equivalents		**574**	(157)
Cash and cash equivalents, beginning of year		**1,710**	1,867
Cash and cash equivalents, end of year		**$ 2,284**	$ 1,710

Cash and cash equivalents comprise cash and short-term investments.

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2012

1. Reporting entity

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the Credit Unions and Caisses Populaires Act, 1994 ("the Act").

The statutory objects of the Corporation under the Act are to:

- provide insurance against the loss of part or all of deposits with credit unions;
- promote and otherwise contribute to the stability of the credit union sector in Ontario with due regard to the need to allow credit unions to compete effectively while taking reasonable risks;
- pursue the objects set out in the above clauses for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Corporation to loss;
- collect, accumulate and publish such statistics and other information related to credit unions as may be appropriate;
- perform the duties provided under this Act or the regulations or do anything the Corporation is required or authorized to do under this Act or the regulations; and
- carry out such other objects as the Minister may specify in writing or as may be prescribed.

The Act empowers the Corporation to assess its insured institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

The Minister of Finance provides DICO with a $250 million line of credit with the Ontario Financing Authority (OFA) which is due for renewal on December 31, 2013. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province's cost of funds for borrowings with a three month term, determined by the OFA at the time of the borrowing, plus an additional 0.40 percent per annum.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The fiscal year ended December 31, 2012 represents the Corporation's second annual reporting period under IFRS. These financial statements were approved by the Board of Directors on March 20, 2013.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation's functional currency which is the Canadian dollar. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of assumptions and judgments are disclosed in provisions for losses (note 6) and measurement of accrued benefit obligations relating to future non-pension post-retirement benefits (note 9).

3. Summary of significant accounting policies

To facilitate a better understanding of our financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements unless otherwise indicated.

(a) Premium income:

Premiums are based on a Differential Premium Risk Classification System, as defined by regulation applied to insured deposits held by insured institutions. Premium income is calculated based on the Annual Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses:

The provision for losses includes allowances against deposit insurance advances to insured institutions in liquidation and an accrual for losses for which advances have not been made at the date of the statement of financial position.

Funds advanced in respect of deposit insurance and loans to insured institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the statement of financial position, net of allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for loss reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions. The provision is established by assessing the aggregate risk in insured institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. A new methodology was developed by management which evaluates all institutions with the highest risk score under our current prospective risk rating system. The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund "DIRF" model) and actual probabilities of failure when possible. The model also categorizes the institutions based on asset size and discounts the estimated loss to the next 12 month period. Model results are then considered along with the level of the existing allowance, as well as management's judgement regarding economic and market conditions to come to a final determination of what the general accrual for loss should be.

(c) Employee benefits:

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. DICO's defined contribution pension plan covers all of DICO's regular, non-contractual employees. As well, there are supplemental arrangements which provide pension benefits for income in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined benefit plans

The Corporation provides future non-pension post-retirement benefits which relate to DICO's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the projected unit benefit method prorated on service. In June

2011, the International Accounting Standards Board ("IASB") amended IAS 19 - Employment Benefits, which applies to defined benefit plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach), require changes from remeasurement of defined benefit plan assets and liabilities to be recognized in full in the statement of other comprehensive income ("OCI"), and require additional disclosures. The amendments are effective for fiscal years beginning on or after January 1, 2013 but may be applied earlier.

The Corporation has elected to apply this amendment effective January 1, 2012. With the requirement to provide comparative information in the financial statements, the transition to the OCI approach is recognized on January 1, 2011. All unrecognized actuarial gains and losses and past service costs are reflected in the DIRF as at that date as a one-off transition adjustment. An explanation of how this transition has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 16 of the financial statements.

(iii) Other long-term employee benefits

The Corporation's other obligation in respect of long-term employee benefits is the amount of retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is voluntary and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) Financial instruments:

DICO's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in OCI and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in OCI is transferred to Statement of Operations.

(e) Property, plant and equipment:

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including the borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(ii) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, if any. Depreciation of furniture and equipment is provided by the diminishing-balance method at the rate of 20 % per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets:

The internally developed web-based software tool for electronic filing of financial data by the insured institutions is recorded as an intangible asset. The expenditure capitalized includes the direct cost of specialized and licensed software and direct labour costs that are attributable to preparing the asset for its intended use. The subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. The capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is recognised in Statement of Operations on a straight-line basis over the estimated useful life of seven (7) years from the date that the assets are available for use.

(g) Lease payments:

Payments made under operating leases are recognized in Statement of Operations on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in Statement of Operations except for items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Premium Income

($000)	2012	2011
	$25,193	$24,342

Differential premiums are calculated based on the amount of each institution's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. The higher the points, the lower the premium rate. The effective rates (per $1,000 of insured deposits) are as follows:

Class	Points	Rate
1	85	$1.00
2	70-84	$1.15
3	55-69	$1.40
4	40-54	$1.75
5	<40	$3.00

At December 31, 2012 DICO has deferred premium income of $3,436,000 (2011 - $4,178,000) which represents the balance of pro-rated premiums for the insured institutions whose fiscal year straddles DICO's fiscal year end.

5. Investments

	December 31, 2012			December 31, 2011		
	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount ($ thousands)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills - Canada and Ontario	$ 57,850	0.98%	88	$54,150	0.82%	89
Bankers' acceptances / Bank deposit notes	55,434	1.08%	25	38,144	1.06%	23
Ontario Infrastructure and Land Corp.	6,702	1.01%	15	-	-	-
Total current investments	$ 119,986	1.00%	55	$92,294	0.85%	62
Laddered government bonds	$ 11,835	1.34%	616	-	-	-
Total non-current investments	$ 11,835	1.34%	616	-	-	-
CUCO Co-op Class B investment shares (acquired from liquidated institutions)	$ 641	-	-	$ 517	-	-
Total Other non-current investments	$ 641	-	-	$ 517	-	-

The Corporation's current and non-current investments are classified as available-for-sale and are measured at fair value with unrealized gains and losses recorded in the Statement of Accumulated Other Comprehensive Income until the investment is sold.

As of December 31, 2012, the current, highly liquid investments have a weighted-average yield of 1.00% (2011: 0.85%). The non-current investments are the laddered government bonds with a remaining weighted average term to maturity of greater than one year. The weighted average yield of these investments averaged 1.34% as of December 31, 2012. The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act, the Credit Unions and Caisses Populaires Act, 1994 and Regulation 237/09.

During the year, in order to facilitate the orderly wind-down of some credit unions in liquidation, DICO purchased the CUCO Co-op Class B shares held by these credit unions at the carrying value of $49,000 (2011 - $393,000).

Fair value hierarchy:

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2012, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets:

($ thousands)	2012	2011
Level 1	$ 131,821	$ 92,294
Level 2	$ 641	$ 517
Level 3	-	-
Total	$ 132,462	$ 92,811

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. Accrual for deposit insurance claims

The provision for losses includes specific provisions for known or likely losses from specific insured institutions not included in their financial statements and a general accrual for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the statement of financial position as "Accrual for deposit insurance claims".

When funds advanced in respect to deposit insurance claims are in excess of the estimated loss provision at the end of the reporting period, the balance is reported as "Deposit insurance advance recoverable" on the statement of financial position.

	2012	2011
	($ thousands)	
Accrual for deposit insurance claims, beginning of year	**$ 5,286**	$ 5,275
Add:		
Increase in accrual for current year losses	**1,532**	1,100
(Recovery) of provision for prior year's losses	**(17,569)**	(1,197)
Net (recovery) / provision for insurance losses for the year	**(16,037)**	(97)
(Decrease) in deposit insurance advances recoverable (net)	**(4,580)**	(5,299)
Net deposit insurance recoveries	**20,099**	5,407
Accrual for deposit insurance claims, end of year	**$ 4,768**	$ 5,286

During 2012 the Corporation was successful in settling a number of outstanding claims against third parties which resulted in recoveries on prior years' losses. As DICO does not accrue any potential loss recoveries until they are realized, these recoveries have the effect of increasing the excess of income over total expenses for the year and the Deposit Insurance Reserve Fund.

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation. The general accrual for losses included in "Accrual for deposit insurance claims" is $3,500,000 at December 31, 2012 (2011 - $5,000,000) and is calculated in accordance with the methodology as described in note 3(b).

7. Property, plant and equipment

($ thousands)	Furniture and Fixture	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Cost or deemed cost						
Balance at January 1, 2011	$ 486	$ 72	$ 1,919	$1,515	$ 499	$ 4,491
Additions	31	3	53	8	-	95
Disposals	(1)	-	(36)	-	-	(37)
Transferred to intangible asset	-	-	-	(804)	-	(804)
Balance at December 31, 2011	**$ 516**	**$ 75**	**$ 1,936**	**$ 719**	**$ 499**	**$ 3,745**
Balance at January 1, 2012	$ 516	$ 75	$ 1,936	$ 719	$ 499	$ 3,745
Additions	8	6	43	12	18	87
Disposals	-	-	(32)	-	-	(32)
Balance at December 31, 2012	**$ 524**	**$ 81**	**$ 1,947**	**$ 731**	**$ 517**	**$ 3,800**
Depreciation						
Balance at January 1, 2011	$ 395	$ 67	$ 1,795	$ 648	$ 170	$ 3,075
Depreciation for the year	22	2	71	44	50	189
Disposals	(1)	-	(35)	-	-	(36)
Balance at December 31, 2011	**$ 416**	**$ 69**	**$ 1,831**	**$ 692**	**$ 220**	**$ 3,228**
Balance at January 1, 2012	$ 416	$ 69	$ 1,831	$ 692	$ 220	$ 3,228
Depreciation for the year	21	2	64	22	50	159
Disposals	-	-	(32)	-	-	(32)
Balance at December 31, 2012	**$ 437**	**$ 71**	**$ 1,863**	**$ 714**	**$ 270**	**$ 3,355**
Carrying amount						
At January 1, 2011	$ 91	$ 5	$ 124	$ 867	$ 329	$ 1,416
At December 31, 2011	$ 100	$ 6	$ 105	$ 27	$ 279	$ 517
At December 31, 2012	$ 88	$ 12	$ 81	$ 18	$ 246	$ 445

8. Intangible assets

($ thousands)	Development Costs
Cost	
Balance at January 1, 2011	$ -
Transferred from software work in progress	804
Additions	98
Balance at December 31, 2011	**$902**

Balance at January 1, 2012	$902
Additions	-
Disposals	-
Balance at December 31, 2012	**$902**

Amortization	
Balance at January 1, 2011	$ -
Amortization for the year	107
Balance at December 31, 2011	**$107**

Balance at January 1, 2012	$107
Amortization for the year	129
Balance at December 31, 2012	**$236**

Carrying amounts	
At January 1, 2011	$ -
At January 31, 2011	795
At December 31, 2012	**$666**

The carrying amount of the intangible asset represents the web-based software project developed internally. The electronic filing system was successfully launched on Feb 1, 2011.

9. Employee benefits

(i) Pension plan

The Corporation operates a defined contribution pension plan for all eligible employees. In addition DICO accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Pension Plan provides the same benefit as the registered plan on that portion of an employee's income in excess of the registered plan limits. The Auxiliary Pension Plan provides an additional defined contribution amount for the CEO on his base salary. The total pension expense for the Corporation charged to Statement of Operations in 2012 was $583,000 (2011 - $418,000). Total accrued pension plan benefits as at December 31, 2012 amounted to $1,312,000 (2011- $1,185,000).

(ii) Future non-pension post-retirement benefits

The Corporation adopted the amended IAS 19 (June 2011) on January 1, 2012. Due to the requirement to provide comparative information, a transition adjustment was made on January 1, 2011 to equity to bring the existing current IAS 19 balances in line with the requirements of the amended IAS 19. Reconciliation to the amended IAS 19 and the impact of the transition is disclosed in note 16 to the financial statements.

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2012, as actuarially determined, is $2,997,000 (2011 - $2,655,000). The annual benefit cost, including current service cost and interest cost amounted $212,000 (2011 - $150,000). The last updated actuarial valuation for the Corporation's plan was completed as of December 31, 2011.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 4.0% (2011 - 4.5%), rate of compensation increase of 3.5% (2011 - 3.5%) and initial weighted average trend rate in health and dental costs of 5.90% (2011 - 5.75%), grading down to 4.5 % per annum by 2032. The Corporation measures its accrued benefit obligations as at December 31st.

Change in non-pension post retirement benefit obligation *($ thousands)*	**December 31, 2012**	December 31, 2011
Benefit obligation at beginning of year	**$ 2,655**	$ 1,989
Current service cost	**95**	38
Interest cost	**117**	112
Benefit payments	**(59)**	(45)
Re-measurements of effect of changes in assumptions included in OCI	**189**	561
Benefit obligation at end of year	**$ 2,997**	$ 2,655

Sensitivity analysis: *($ thousands)*	**December 31, 2012**	December 31, 2011
1. Discount rate		
a. Discount rate -25 basis points	**$3,124**	N/A
b. Discount rate +25 basis points	**$2,877**	N/A
2. Health inflation rate		
a. Inflation rate -100 basis points		
(i) affect on benefit obligation	**$2,572**	$2,315
(ii) affect on service cost plus interest cost	**$ 176**	$ 124
b. Health inflation rate + 100 basis points		
(i) affect on benefit obligation	**$3,539**	$3,084
(ii) affect on service cost plus interest cost	**$ 262**	$ 186

The Corporation has also implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $966,000 at December 31, 2012 (2011 - $669,000).

Summary of employees benefit liabilities (non-current):

($ thousands)	**December 31, 2012**	December 31, 2011
Employee pension benefits	**$ 1,312**	$ 1,185
Employee future non-pension post-retirement benefits	**2,997**	2,655
Retention benefits for key management personnel	**966**	669
Total	**$ 5,275**	$ 4,509

10. Operating leases

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)	**2012**	**2011**
Less than 1 year	-	-
Between 1 and 5 years	**$310**	$118
More than 5 years	-	$188

Under the operating lease for its premises the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $325,000 per annum.

11. Income taxes

Income tax expense reported in the Statement of Operations is as follows:

Recognition of effective tax rate

($ thousands)	**2012**	2011
Profit before income tax	**$ 34,571**	$ 18,656
Income tax using the combined statutory rate 26.5% (2011 - 28.25%)	**9,161**	5,270
Income not included for tax purposes	**(11,125)**	(7,444)
Current year losses for which no deferred tax asset was recognized	**1,652**	1,925
Other, net	**312**	249
Provision (recovery)	**$ -**	$ -

Deferred tax assets and liabilities

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	**2012**	2011
Deductible temporary differences	**$ 3,440**	$ 3,030
Tax benefit of loss carry-forwards	**9,275**	7,026
	$12,715	$10,056

The tax losses expire starting in 2014. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

12. Related parties

Transactions with key management personnel

Directors and key management personnel compensation

During the year the directors received an aggregate remuneration of $127,000 (2011 - 154,000). Total directors' expenses were $62,000 (2011 - $83,000). The remuneration for the Chair is a minimum of $2,000 per month which includes a per diem rate of $500. The per diem rate for all other Board members is $400 (2011 - $400) plus an annual retainer of $3,500.

Under the public Sector Salary Disclosure Act 1996, DICO publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2012. The information is available on the Ministry of Finance website at www.fin.gov.on.ca/en/publications/salarydisclosure.

In addition to their salaries, the Corporation provides a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. The term of the plan varies with individuals and the acceptance is voluntary. Other benefits include DICO's contributions to the pension plan and non-pension future employee benefits in which all employees of DICO are entitled to participate when they meet the qualification criteria.

Key management personnel compensation comprised:

($ thousands)	2012	2011
Short-term benefits	$ 55	$ 61
Post-employment benefits	167	155
Other long-term benefits	275	236
Total	$ 497	$ 452

13. Contingency

When acting in the capacity of administrator or liquidator of a credit union, the Corporation manages various legal actions in the normal course of business. At the end of 2012 there were no actions brought against the Corporation by third parties. Accordingly, no provisions have been made in these financial statements.

14. Risks arising from financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counterparty. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in insured institutions. The main components of this allowance are specific provisions that relate to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains a line of credit approved by the Minister of Finance of $250 million that can be drawn down to provide liquidity to DICO as deposit insurer of insured institutions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The facility is effective from January 1, 2009 to December 31, 2013. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three month term, plus an additional 0.40 percent, as determined by the OFA at the commencement of each three month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 1 percent in interest rates for the investments would have increased or decreased equity by $1,239,000 (2011: $793,000).

(e) Capital management

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2012, the Corporation has a DIRF of $147.5 million, which represents 64 basis points of the sector's insured deposits. DICO's current target range for the reserve fund is between 56 and 68 basis points of total insured deposits. The Corporation is committed to continue building the fund to ensure that it is adequate to meet the Corporation's obligations to depositors.

15. Fair Value Disclosure

The fair value of financial assets and liabilities which include cash and cash equivalents, premiums receivable, payables and accruals, and employee benefits, approximate their carrying amounts. The fair value of accrual for deposit insurance claims has not been determined because it is not practicable to determine fair value with sufficient reliability.

16. Explanation of adoption of the amended IAS 19-Employment benefits

As stated in note 3c(ii), the Corporation has elected to apply early adoption of the amended IAS 19 effective January 1, 2012. The accounting changes regarding the non-pension post-retirement benefit plan have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in these financial statements for the year ended December 31, 2011 and in the preparation of a statement of financial position at January 1, 2011.

The Corporation has adjusted amounts reported previously in financial statements prepared before the adoption of the amended IAS 19. An explanation of how the transition has affected the Corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Explanation of adoption of amended IAS 19 re Post Retirement Non-pension Benefits

Reconciliation of Equity

	January 1, 2011			December 31, 2011		
($ thousands)	**Previously reported**	**Effect of transition to amended IAS 19**	**As restated**	**Previously reported**	**Effect of transition to amended IAS 19**	**As restated**
ASSETS						
Current assets						
Cash and equivalents	$ 1,867	-	$ 1,867	$ 1,710	-	$ 1,710
Investments	68,390	-	68,390	92,294	-	92,294
Premiums receivable	3,940	-	3,940	4,002	-	4,002
Prepaid expenses and other receivables	318	-	318	1,002	-	1,002
Total current assets	74,515	-	74,515	99,008	-	99,008
Non-current assets						
Deposit insurance advances recoverable	32,632	-	32,632	27,333	-	27,333
Property, plant and equipment (net)	1,416	-	1,416	517	-	517
Intangible assets (net)	-	-	-	795	-	795
Other investments	-	-	-	517	-	517
Total non-current assets	34,048	-	34,048	29,162	-	29,162
Total assets	**$ 108,563**	**-**	**$ 108,563**	**$ 128,170**	**-**	**$ 128,170**
LIABILITIES						
Current liabilities						
Payables and accruals	$ 646	-	$ 646	$ 649	-	$ 649
Deferred premium income	3,893	-	3,893	4,178	-	4,178
Total current liabilities	4,539	-	4,539	4,827	-	4,827
Non-current liabilities						
Payables and accruals	941	-	941	933	-	933
Employee benefits	3,206	249	3,455	3,704	805	4,509
Accrual for deposit insurance claims	5,275	-	5,275	5,286	-	5,286
Total non-current liabilities	9,422	249	9,671	9,923	805	10,728
Total Liabilities	**$ 13,961**	**$ 249**	**$ 14,210**	**$ 14,750**	**$ 805**	**$ 15,555**
EQUITY						
Accumulated other comprehensive income (loss)	$ 49	-	$ 49	$ 216	$ (561)	$ (345)
Deposit Insurance Reserve Fund	94,553	(249)	94,304	113,204	(244)	112,960
Total Equity	**$ 94,602**	**$ (249)**	**$ 94,353**	**$ 113,420**	**$ (805)**	**$ 112,615**
Total Liabilities and Equity	**$ 108,563**	**-**	**$ 108,563**	**$ 128,170**	**-**	**$ 128,170**

Reconciliation of Statement of Operations and Changes in the Deposit Insurance Reserve Fund

For the year ended December 31, 2011

($ thousands)	Previously reported	Effect of transition to amended IAS 19	As restated
Income			
Premium income	$ 24,342	$ -	$ 24,342
Other income	865	-	865
	25,207	-	25,207
Expenses			
Salaries and benefits	5,975	(5)	5,970
Operating expenses	2,804	-	2,703
Recovery of operating expenses	(2,126)	-	(2,025)
	6,653	(5)	6,648
Excess of income over operating expenses	18,554	5	18,559
(Recovery) Provision for losses	(97)	-	(97)
Excess of income over total expenses	18,651	5	18,656
Deposit Insurance Reserve Fund, beginning of year	94,553	(249)	94,304
Deposit Insurance Reserve Fund, end of year	**$ 113,204**	**$ (244)**	**$ 112,960**

Reconciliation of Statement of Comprehensive Income

For the year ended December 31, 2011

($ thousands)	Previously reported	Effect of transition to amended IAS 19	As restated
Excess of income over total expenses	$ 18,651	$ -	$ 18,656
Other comprehensive income:			
Unrealized gains on available-for-sale investment	42	-	42
Unrealized gains on available-for-sale investment acquired from liquidated institutions	125	-	125
Actuarial loss on defined benefit non-pension post-employment plans	-	(561)	(561)
Other comprehensive income (loss)	167	(561)	(394)
Comprehensive income	**$ 18,818**	**$ (561)**	**$ 18,262**

Statement of Accumulated Other Comprehensive Income

For the year ended December 31, 2011 *($ thousands)*

Accumulated other comprehensive income, beginning of year	$ 49	$ -	$ 49
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	(49)	-	(49)
Unrealized gains on available-for-sale investments	91	-	91
Unrealized gains on available-for-sale investments arising from liquidated institutions	125	-	125
Actuarial loss on defined benefit non-pension post-employment plans	-	(561)	(561)
Net change during the year	167	(561)	(394)
Accumulated other comprehensive income (loss), end of year	**$ 216**	**$ (561)**	**$ (345)**

Explanation of adoption of the amended IAS 19 - Employee benefits

Notes to the reconciliations

Employee benefits - Post-employment future non-pension benefit plan (for medical, dental and life insurance benefits)

Before January 1, 2012, DICO's accounting policy was to recognize the actuarial gains and losses using the 10% corridor method where gains and losses that fall outside of the 10% corridor were amortized over the average expected remaining service life of the active group (i.e. 11 years). The benefit expense was recognized systematically over time in Statement of Operations. At the date of IFRS transition (January 1, 2010), all previously unrecognized cumulative actuarial gains and losses had been recognized in DIRF.

Effective January 1, 2012, the Corporation applied early adoption of the amended IAS 19 which eliminated the corridor method of recognizing gains and losses. It requires that all current actuarial gains and losses to be recognized in OCI. The plan's current and past service cost and the net interest cost are to be recognized in profit and loss.

As calculated by Mercer (Canada), as at January 1, 2011, the charge to DIRF due to the retrospective application of amended IAS 19 was $249,000 which increased the plan's obligation to $1,989,000. The plan's obligation as at December 31, 2011 was valued at $2,655,000 which required an adjustment of a further unrecognized actuarial loss of $561,000 to be recorded in OCI and a reduction in expense of $5,000 in the year 2011.

Impact summary:

Statement of Financial Position *($ thousands)*	January 1, 2011	December 31, 2011
Increase in accrued future non-pension benefits	$(249)	-
Decrease in Service / Interest cost	-	$ 5
(Decrease) Increase in DIRF	**$(249)**	**$ 5**

Statement of Accumulated Other Comprehensive Income (loss)	January 1, 2011	December 31, 2011
Increase in actuarial loss in future non-pension benefits	$ -	$(561)

Deposit Insurance Corporation of Ontario's Insured Institutions

(as at December 31, 2012)

CREDIT UNIONS (110)

Adjala Credit Union Limited
Airline Financial Credit Union Limited
All Trans Financial Services Credit Union Limited
Alterna Savings and Credit Union Limited
APPLE Community Credit Union Limited
Arnstein Community Credit Union Limited
Auto Workers Community Credit Union Limited
Bay Credit Union Limited
Bayshore Credit Union Ltd.
Boomerang Credit Union Limited
Buduchnist Credit Union Limited
C.N. (London) Credit Union Limited
CCB Employees' Credit Union Limited
City Savings & Credit Union Limited
Communication Technologies Credit Union Limited
Community First Credit Union Limited
Copperfin Credit Union Limited
Creative Arts Savings & Credit Union Limited
DUCA Financial Services Credit Union Ltd.
Dundalk District Credit Union Limited
Dunnville and District Credit Union Limited
Durham Educational Employees' Credit Union Limited
Education Credit Union Limited
Energy Credit Union Limited (The)
Equity Credit Union Inc.
Espanola & District Credit Union Limited
Estonian (Toronto) Credit Union Limited
Federal Employees (Kingston) Credit Union Limited
Finnish Credit Union Limited
Fire Department Employees Credit Union Limited (The)
FirstOntario Credit Union Limited
Fort Erie Community Credit Union Limited
Fort York Community Credit Union Limited
Frontline Financial Credit Union Limited
G.S.W. (Fergus) Credit Union Limited
Ganaraska Credit Union Ltd.
Goderich Community Credit Union Limited
Golden Horseshoe Credit Union Limited
Hald - Nor Community Credit Union Limited
Hamilton Municipal Employees' Credit Union Limited
Hamilton Teachers' Credit Union Limited
Health Care Credit Union Limited
Heritage Savings & Credit Union Inc.
Italian Canadian Savings & Credit Union Limited
Kawartha Credit Union Limited
Kellogg Employees Credit Union Limited
Kingston Community Credit Union Limited
Korean (Toronto) Credit Union Limited
Korean Catholic Church Credit Union Limited
Krek Slovenian Credit Union Ltd.
L.I.U.N.A. Local 183 Credit Union Limited
Lambton Financial Credit Union Limited
Latvian Credit Union Limited
Libro Credit Union Limited
London Fire Fighters' Credit Union Limited
Luminus Financial Services & Credit Union Limited
Member Savings Credit Union Limited
MemberOne Credit Union Limited
Mennonite Savings and Credit Union (Ontario) Limited
Meridian Credit Union Limited
Miracle Credit Union Ltd.
Momentum Credit Union Limited
Motor City Community Credit Union Limited
Municipal Employees (Chatham) Credit Union Limited
Northern Credit Union Limited
Northern Lights Credit Union Limited
Northridge Savings Credit Union Limited
ONR Employees' (North Bay) Credit Union Limited
Ontario Civil Service Credit Union Limited
Ontario Educational Credit Union Limited
Ontario Provincial Police Association Credit Union Limited
Oshawa Community Credit Union Limited
Ottawa Police Credit Union Limited
Ottawa Women's Credit Union Limited
Pace Savings & Credit Union Limited
Parama Lithuanian Credit Union Limited
Pedeco (Brockville) Credit Union Limited
PenFinancial Credit Union Limited
Peoples Credit Union Limited
Peterborough Community Credit Union Limited
Police Credit Union Limited (The)
Prosperity One Credit Union Limited
Provincial Alliance Credit Union Limited
QuintEssential Credit Union Limited
Resurrection Credit Union Limited
Rochdale Credit Union Limited
Saugeen Community Credit Union Limited
Slovenia Parishes (Toronto) Credit Union Limited
Smiths Falls Community Credit Union Limited

Southwest Regional Credit Union Ltd.
St. Stanislaus-St. Casimir's Polish Parishes Credit Union Ltd.
State Farm (Toronto) Credit Union Limited
Sudbury Credit Union Limited
Superior Credit Union Limited
Sydenham Community Credit Union Limited
Taiwanese - Canadian Toronto Credit Union Limited
Talka Credit Union Limited
Thamesville Community Credit Union Limited
Thorold Community Credit Union Limited
Toronto Catholic School Board Employees Credit Union Ltd.
Toronto Municipal Employees' Credit Union Limited
Ukrainian Credit Union Limited
Unigasco Community Credit Union Limited
United Communities Credit Union Limited
United Employees' Credit Union Limited
Utilities Employees' (Windsor) Credit Union Limited
Victory Community Credit Union Limited
Windsor Family Credit Union Limited
Your Credit Union Limited
Your Neighbourhood Credit Union Limited

CAISSES POPULAIRES (33)

Caisse populaire Azilda Inc.
Caisse populaire Coniston Inc.
Caisse populaire d'Alban Limitée
Caisse populaire d'Alfred Limitée
Caisse populaire d'Orléans Inc.
Caisse populaire de Bonfield Limitée
Caisse populaire de Cochrane Limitée
Caisse populaire de Cornwall Inc.
Caisse populaire d'Earlton Limitee
Caisse populaire de Field Limitée (La)
Caisse populaire de Hawkesbury Limitée
Caisse populaire de Hearst Limitée
Caisse populaire de Kapuskasing Limitée
Caisse populaire de la Vallée
Caisse populaire de Mattawa Limitée
Caisse populaire de Mattice Limitée
Caisse populasire de New Liskeard Limitee
Caisse populaire de Noëlville Limitée
Caisse populaire de North Bay Limitée
Caisse populaire de Timmins Limitée (La)
Caisse populaire de Verner Limitée
Caisse populaire des Voyageurs Inc.
Caisse populaire du Témiskaming Ontarien Limitée (La)
Caisse populaire Nouvel-Horizon Inc.
Caisse Populaire Pointe-aux-Roches-Técumseh Inc.
Caisse Populaire Rideau-Vision d'Ottawa Inc.
Caisse populaire St-Jacques de Hanmer Inc.
Caisse Populaire St. Charles Limitée
Caisse populaire Sturgeon Falls Limitée
Caisse populaire Trillium Inc.
Caisse populaire Val Caron Limitée
Caisse populaire Vermillon
Caisse populaire Welland Limitée

LEAGUES

L'Alliance de caisses populaires de l'Ontario Inc.
La Federation des caisses populaires de l'Ontario Inc.